PROSPECTUS (Subject to Completion)
Issued July 17, 1995

3,500,000 Shares

NETSCAPE

COMMON STOCK

Of the 3,500,000 Shares of Common Stock offered, 3,000,000 Shares are being offered initially in the United States and Canada by the U.S. Underwriters and 500,000 Shares are being offered initially outside of the United States and Canada by the International Underwriters. See "Underwriters." All of the Shares of Common Stock offered hereby are being sold by the Company. Prior to this offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between $12 and $14 per share. See "Underwriters" for a discussion of the factors to be considered in determining the initial public offering price.

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 6 HEREOF.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE $ A SHARE

	Price to Public	Underwriting Discounts and Commissions (1)	Proceeds to Company (2)
Per Share	$	$	$
Total (3)	$	$	$

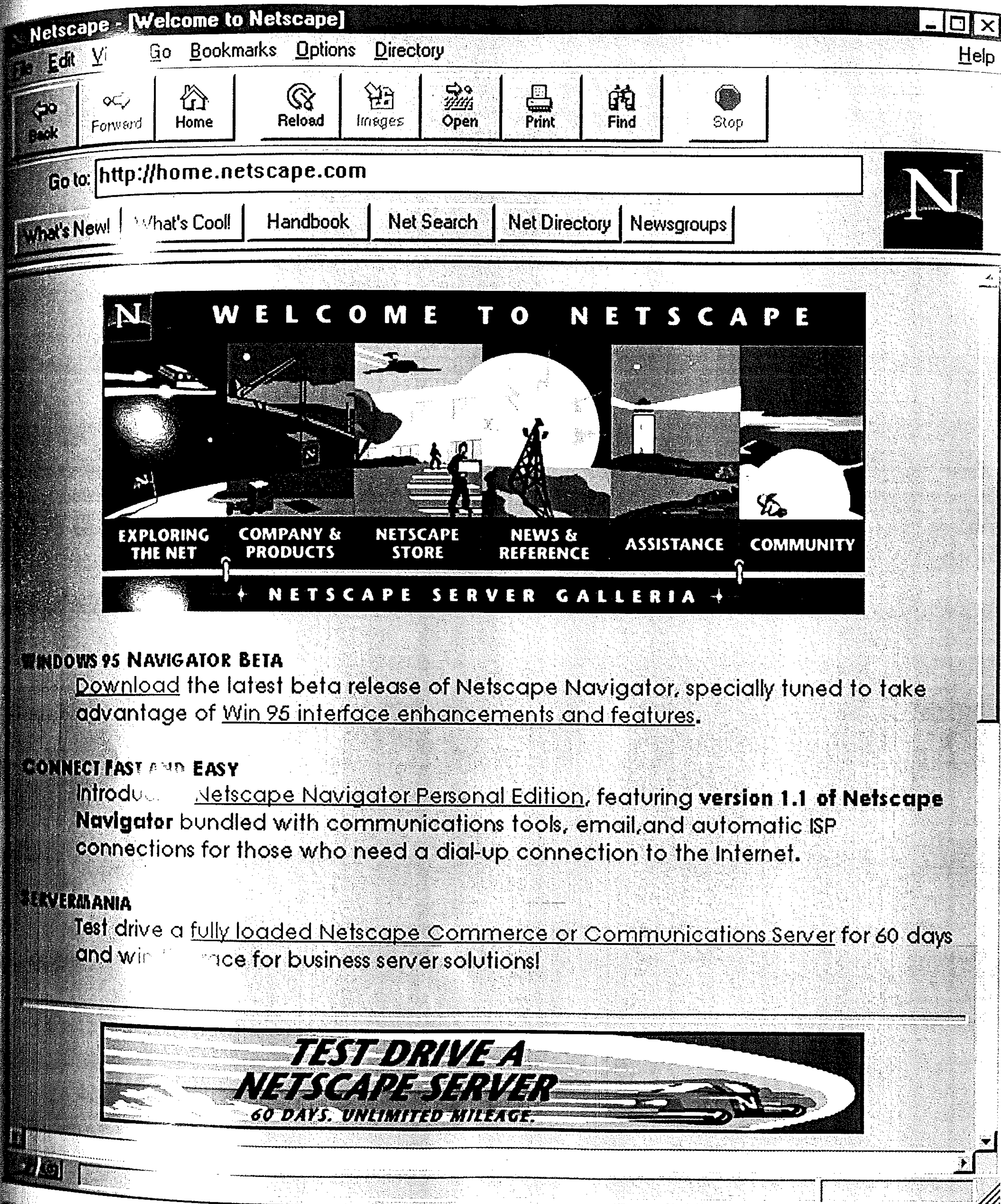
(1) The Company has agreed to indemnify the U.S. Underwriters and the International Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.
(2) Before deducting expenses payable by the Company estimated at $750,000.
(3) The Company has granted the U.S. Underwriters an option, exercisable within 30 days of the date hereof, to purchase up to an aggregate of 525,000 additional Shares at the price to public less underwriting discounts and commissions for the purpose of covering over-allotments, if any. If the U.S. Underwriters exercise such option in full, the total price to public, underwriting discounts and commissions and proceeds to Company will be $, $ and $, respectively. See "Underwriters."

The Shares are offered, subject to prior sale, when, as and if accepted by the Underwriters named herein and subject to approval of certain legal matters by Morrison & Foerster, counsel for the Underwriters. It is expected that delivery of certificates for the Shares will be made on or about , 1995, at the office of Morgan Stanley & Co. Incorporated, New York, N.Y., against payment therefor in New York funds.

MORGAN STANLEY & CO. ***HAMBRECHT & QUIST***
Incorporated

, 1995

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.



The inside front and inside back cover pages of this Prospectus depict a sample Netscape home page and Web page, respectively.

IN CONNECTION [illegible] WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS W[illegible]BILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT [illegible] ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and the consolidated financial statements and notes thereto appearing elsewhere in this Prospectus.

THE COMPANY

Netscape Communications Corporation is a leading provider of open client, server and integrated applications software that enables information exchange and commerce over the Internet and private Internet Protocol networks. The Company's products are designed to deliver high levels of performance, ease of use and security. These products allow individuals and organizations to execute secure financial transactions across the Internet, such as the buying and selling of merchandise, publications, software and information. In addition, through the use of the Company's software, organizations can extend their internal information systems and enterprise applications to geographically dispersed facilities, remote offices and mobile employees.

To reach a diverse and worldwide audience, Netscape delivers its suite of products and services through multiple distribution channels. The Company offers its products via a direct sales force, telesales and the Internet as well as through original equipment manufacturers, systems integrators, value added resellers and software retailers. To accelerate the acceptance of the Company's products and facilitate the adoption of the Internet as a commercial marketplace, Netscape has also initiated or is pursuing strategic relationships with leading telecommunications, commerce and computing companies with complementary resources and technologies. These companies include Apple Computer, Inc., Delphi Internet Services Corporation, Digital Equipment Corporation, First Data Corporation, MasterCard International, Inc., MCI Telecommunications Corporation, Novell, Inc., RSA Data Security, Inc., Silicon Graphics, Inc. and Sun Microsystems, Inc.

THE OFFERING

Common Stock offered	
U.S. offering	3,000,000 shares
International offering	500,000 shares
Total	3,500,000 shares
Common Stock to be outstanding after the offering	36,661,444 shares(1)
Use of proceeds	For general corporate purposes, including working capital and capital expenditures
Proposed Nasdaq National Market symbol	NSCP

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

	Period from inception (April 4, 1994) to December 31, 1994	Quarter Ended		Six Months Ended
		March 31, 1995	June 30, 1995	June 30, 1995
Consolidated Statement of Operations Data:				
Total revenues	$ 695,871	$ 4,737,591	$11,887,800	$16,625,391
Gross profit	476,781	4,287,547	10,602,032	14,889,579
Total operating expenses(2)	9,001,556	7,004,588	12,559,635	19,564,223
Operating loss	(8,524,775)	(2,717,041)	(1,957,603)	(4,674,644)
Net loss	(8,469,845)	(2,699,023)	(1,608,693)	(4,307,716)

	June 30, 1995	
	Actual	As Adjusted(3)
Consolidated Balance Sheet Data:		
Working capital	$10,698,225	$52,263,225
Total assets	42,531,203	84,096,203
Deferred revenue	14,963,843	14,963,843
Long-term obligations	2,236,331	2,236,331
Stockholders' equity	16,474,521	58,039,521

(1) Based on shares of Common Stock outstanding at June 30, 1995. Excludes 855,000 shares of Common Stock issuable upon exercise of outstanding options at June 30, 1995, with a weighted average exercise price of $7.91 per share. Assumes no exercise of the Underwriters' over-allotment option. See "Capitalization," "Management—Stock Plans," "Underwriters" and Note 6 of Notes to Consolidated Financial Statements.

(2) Total operating expenses for the quarter ended March 31, 1995, the quarter ended June 30, 1995 and the six months ended June 30, 1995 include $861,512, $413,390 and $1,274,902, respectively, in amortization of deferred compensation related to stock option grants. See Note 6 of Notes to Consolidated Financial Statements.

(3) Adjusted to reflect the sale of the shares of Common Stock offered hereby (at an assumed initial public offering price of $13.00 per share and after deducting the estimated underwriting discounts and commissions and estimated offering expenses) and the application of the net proceeds therefrom. Assumes no exercise of the Underwriters' over-allotment option. See "Use of Proceeds," "Capitalization" and "Underwriters."

No person is authorized in connection with any offering made hereby to give any information or to make any representation other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or any Underwriter. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy by any person in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances imply that the information contained herein is correct as of any date subsequent to the date hereof.

Until , 1995 (25 days after the commencement of this offering), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

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The Company intends to furnish to its stockholders annual reports containing consolidated financial statements audited by an independent public accounting firm and quarterly reports for the first three quarters of each fiscal year containing interim unaudited financial information.

The Company has applied for registration of the following trademarks: Netscape, Netscape Navigator and the Company's logo. This Prospectus also includes product names and other trade names and trademarks of the Company and of other organizations.

Except as otherwise noted herein, all information in this Prospectus assumes (i) a two-for-one stock split of the Common Stock, (ii) the conversion of each outstanding share of Preferred Stock into two shares of Common Stock, which will occur automatically upon the closing of the offering, (iii) an increase in the authorized number of shares of Common Stock from 30,000,000 to 100,000,000, (iv) an increase in the authorized number of shares of undesignated Preferred Stock from 2,000,000 to 5,000,000, and (v) no exercise of the Underwriters' over-allotment option. See "Description of Capital Stock" and "Underwriters."

THE COMPANY

Netscape Communications Corporation ("Netscape" or the "Company") is a leading provider of open client, server and integrated applications software that enables information exchange and commerce over the Internet and private Internet Protocol ("IP") networks. The Company's products are designed to deliver high levels of performance, ease of use and security. These products allow individuals and organizations to execute secure financial transactions across the Internet, such as the buying and selling of merchandise, publications, software and information. In addition, through the use of the Company's software, organizations can extend their internal information systems and enterprise applications to geographically dispersed facilities, remote offices and mobile employees.

The Internet is a global web of computer networks. Developed over 25 years ago, this "network of networks" allows any computer attached to the Internet to talk to any other using the Internet Protocol. The Internet provides organizations and individuals with new means to conduct business. Commercial uses of the Internet include business-to-business and business-to-consumer transactions, product marketing, advertising, entertainment, electronic publishing, electronic services and customer support. The Company believes that organizations will also increasingly use the Internet and private IP networks to improve communications, distribute information, lower operating costs and re-engineer operations.

The Company's goal is to make its software the de facto standard for navigating, publishing information and executing transactions on the Internet and private IP networks. The Netscape Navigator, introduced in December 1994, was the first commercially available client for the World Wide Web (the "Web") to include built-in security capabilities, which facilitate commercial transactions over the Internet. The Company's products enable the creation, manipulation, organization and retrieval of documents that contain audio and video clips, graphical images and formatted text. These products are also designed to provide enhanced security for the controlled access of confidential information on the Internet and private IP networks. The Company's core development group includes key members of the engineering teams that developed the original Mosaic Web client at the National Center for Supercomputing Applications at the University of Illinois ("NCSA") and the original Web server software at Centre for European Particle Research ("CERN") and NCSA, as well as leading software security specialists.

To reach a diverse and worldwide audience, Netscape delivers its suite of products and services through multiple distribution channels. The Company offers its products via a direct sales force, telesales and the Internet as well as through original equipment manufacturers, systems integrators, value added resellers and software retailers. To accelerate the acceptance of the Company's products and further facilitate the adoption of the Internet as a commercial marketplace, Netscape has initiated or is pursuing strategic relationships with leading telecommunications, commerce and computing companies with complementary resources and technologies. These companies include Apple Computer, Inc., Delphi Internet Services Corporation, Digital Equipment Corporation, First Data Corporation, MasterCard International, Inc., MCI Telecommunications Corporation, Novell, Inc., RSA Data Security, Inc., Silicon Graphics, Inc. and Sun Microsystems, Inc.

The Company was incorporated in Delaware in April 1994. Netscape's home page can be located on the Web at http://home.netscape.com. The Company's principal executive office is located at 501 East Middlefield Road, Mountain View, California 94043 and its telephone number is (415) 254-1900. Except as otherwise noted herein, all references to "Netscape" or the "Company" shall mean Netscape Communications Corporation, a Delaware corporation and its Japanese subsidiary, Netscape Communications (Japan), Ltd.

RISK FACTORS

In evaluating the Company's business, prospective investors should consider carefully the following factors in addition to the other information presented in this Prospectus.

Limited Operating History; Accumulated Deficit. The Company was founded in April 1994 and commenced shipment of its initial products in December 1994. Accordingly, the Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets. To address these risks, the Company must, among other things, respond to competitive developments, continue to attract, retain and motivate qualified persons, and continue to upgrade its technologies and commercialize products and services incorporating such technologies. There can be no assurance that the Company will be successful in addressing such risks. The Company has incurred net losses since inception and expects to continue to operate at a loss for the foreseeable future. As of June 30, 1995, the Company had an accumulated deficit of $12.8 million. Although the Company has experienced revenue growth in recent periods, such growth rates will not be sustainable and are not indicative of future operating results. There can be no assurance that the Company will achieve or sustain profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Potential Fluctuations in Quarterly Results. As a result of the Company's limited operating history, the Company does not have historical financial data for a significant number of periods on which to base planned operating expenses. Accordingly, the Company's expense levels are based in part on its expectations as to future revenues and to a large extent are fixed. However, the Company typically operates with no backlog. As a result, quarterly sales and operating results generally depend on the volume and timing of and ability to fulfill orders received within the quarter, which are difficult to forecast. The Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenues shortfall. Accordingly, any significant shortfall of demand for the Company's products and services in relation to the Company's expectations would have an immediate adverse impact on the Company's business, operating results and financial condition. In addition, the Company plans to increase its operating expenses to fund greater levels of research and development, increase its sales and marketing operations, develop new distribution channels and broaden its customer support capabilities. To the extent that such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results and financial condition will be materially adversely affected.

The Company expects to experience significant fluctuations in future quarterly operating results that may be caused by many factors, including demand for the Company's products, introduction or enhancement of products by the Company and its competitors, market acceptance of new products, mix of distribution channels through which products are sold, mix of products and services sold, mix of international and North American revenues, and general economic conditions. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. Due to all of the foregoing factors, it is likely that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Developing Market; Unproven Acceptance of the Company's Products. The market for the Company's software and services has only recently begun to develop, is rapidly evolving and is characterized by an increasing number of market entrants who have introduced or developed products and services for communication and commerce over the Internet and private IP networks. As is typical in the case of a new and rapidly evolving industry, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty. The industry is young and has few proven products. Moreover, critical issues concerning the commercial use of the Internet (including security, reliability, cost, ease of use and access, and quality of service) remain unresolved and may impact the growth of Internet use. While the Company believes that its software products offer significant advantages for commerce and communication over the Internet and private IP networks, there can be no assurance that commerce and communication over the Internet or private

IP networks will become widespread, or that the Company's products for commerce and communication over the Internet or private IP networks will become widely adopted for these purposes.

In particular, the Company's client software will likely be subject to price erosion due to free client software distributed by online service providers, Internet access providers and others. In addition, computer operating systems companies, such as Microsoft Corporation ("Microsoft") and International Business Machines Corporation ("IBM"), are now bundling or are planning to bundle client software with their operating systems at little or no additional cost to users, which will also likely cause the price of the Company's client products to decline. Further, market acceptance of the Company's server and integrated applications software products is substantially dependent upon the adoption of the Internet and private IP networks for commerce and communications. The adoption of the Internet for commerce and communications, particularly by those individuals and enterprises which have historically relied upon alternative means of commerce and communication, generally requires the acceptance of a new way of conducting business and exchanging information. In particular, enterprises that have already invested substantial resources in other means of conducting commerce and exchanging information may be particularly reluctant or slow to adopt a new strategy that may make their existing personnel and infrastructure obsolete. In addition, there can be no assurance that individual PC users in business or at home will adopt the Internet for online commerce or communication.

Because the market for the Company's products and services is new and evolving, it is difficult to predict the future growth rate, if any, and size of this market. There can be no assurance that the market for the Company's products and services will develop, that the Company's products or services will be adopted, or that individual PC users in business or at home will use the Internet or private IP networks for commerce and communication. If the market fails to develop, develops more slowly than expected or becomes saturated with competitors, or if the Company's products do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected. See "Business — Industry Background."

Competition. The market for Internet-based software and services is new, intensely competitive, rapidly evolving and subject to rapid technological change. The Company expects competition to persist, intensify and increase in the future. Almost all of the Company's current and potential competitors have longer operating histories, greater name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources than the Company. Such competition could materially adversely affect the Company's business, operating results or financial condition. The Company's current and potential competitors include Microsoft, browser software vendors, Web server software and service vendors, PC and Unix software vendors and online service providers.

Microsoft has licensed browser software from Spyglass Inc. ("Spyglass") and has announced its intention to improve and bundle the browser with its Windows 95 operating system. Microsoft's browser will access the Microsoft Network, its announced online service, and will also offer Internet access. While the anticipated penetration of this software into Microsoft's installed base of PC users will increase the size and usefulness of the Internet, it will likely also have a material adverse impact on Netscape's ability to sell client software. In addition, because the Company's client software products will not be able to access Microsoft Network, the Company's client software products may be at a competitive disadvantage versus Microsoft's browser. Further, Microsoft may choose to develop Web server and applications software as a complement to its product line and to support the Microsoft Network, which could materially adversely affect Netscape's ability to sell server software or integrated applications. To the extent that Microsoft's browser gains market acceptance, Microsoft will be better positioned than the Company to sell Web server and applications products. Microsoft has a longer operating history, a much larger installed base and number of employees and dramatically greater financial, technical and marketing resources, access to distribution channels and name recognition than the Company. Moreover, to complete development of Netscape Navigator for Windows 95, the Company must obtain certain technology from Microsoft. There can be no assurance that Microsoft will make such technology available to the Company on a timely basis, on commercially reasonable terms or at all.

In addition, IBM has incorporated client software in its OS/2 operating system, and the Company believes that other PC operating system vendors, including Apple Computer, Inc. ("Apple"), will also eventually incorporate some Web client functionality into their operating systems as standard features. This may also be true of Unix operating systems vendors, such as Sun Microsystems, Inc. ("Sun"), Hewlett-Packard Company ("HP"), IBM, Digital Equipment Corporation ("Digital"), The Santa Cruz Operation, Inc. ("SCO") and Silicon Graphics, Inc. ("SGI"). If these companies incorporate Web client functionality into their software products, they could subsequently offer this functionality at little or no additional cost to customers. Further, in the event that client products incorporated into operating systems by PC or Unix software vendors gain market acceptance, these organizations will be better positioned than the Company to sell Web server and applications software products. In addition, software companies which have server products in other product categories may choose in the future to enhance the functionality of existing products or develop new products which incorporate support for Hypertext Transfer Protocol ("HTTP"). For example, Lotus Development Corporation ("Lotus," recently acquired by IBM) may extend Notes in this manner, and Novell, Inc. ("Novell") may provide add-ons to Netware for Web publishing. In addition, Oracle Corporation ("Oracle"), Sybase, Inc. ("Sybase") and Informix Software, Inc. ("Informix") may incorporate Web server functionality into their database products. Oracle has recently announced a technology licensing agreement with Spyglass and its intention to introduce Web-based software that enables electronic commerce and communication. Further, the Company's current products are designed around certain standards, including, for example, security standards. Industry acceptance of competing standards could decrease the demand for the Company's products. Additional competition could come from client/server applications and tools vendors, other database companies, multimedia companies, document management companies, networking software companies, network management companies and educational software companies. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, operating results and financial condition. See "Business — Competition."

New Product Development and Technological Change. Substantially all of the Company's revenues have been derived, and substantially all of the Company's future revenues are expected to be derived, from the license of its software and sale of its associated services. Accordingly, broad acceptance of the Company's software products and services by customers is critical to the Company's future success, as is the Company's ability to design, develop, test and support new software products and enhancements on a timely basis that meet changing customer needs and respond to technological developments and emerging industry standards. There can be no assurance that the Company will be successful in developing and marketing new software products and enhancements that meet changing customer needs and respond to such technological changes or evolving industry standards. The Company's current products are designed around certain standards, including, for example, security standards, and current and future sales of the Company's products will be dependent, in part, on industry acceptance of such standards. Other companies, such as Microsoft and IBM, are proposing alternative standards, the adoption of which could have a material adverse effect on the Company's business, operating results or financial condition. In addition, there can be no assurance that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of new products and enhancements, or that its new products and enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. The Company will be substantially dependent in the near future upon its server and integrated applications software products that are still being developed or have been recently released. In particular, the Company has not yet commercially released the Netscape Publishing System, the Netscape Community System or the Netscape IStore integrated applications software products, the Netscape News Server, Netscape Navigator for Windows 95 or the Netscape authoring tools. Further, because the Company has only recently commenced shipment of its products, there can be no assurance that, despite testing by the Company and by current and potential customers, errors will not be found in the Company's products, or, if discovered, successfully corrected in a timely manner. If the Company is unable to develop on a timely basis new software products, enhancements to existing products or error corrections, or if such new products or enhancements do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected. See "Business — Products" and "— Research and Development."

Evolving Distribution Channels. The Company's distribution strategy is to develop multiple distribution channels. The Company has historically sold its products only through direct sales, the Internet and original equipment manufacturers ("OEMs"). The Company expects to increasingly utilize OEMs and has recently begun utilizing systems integrators, value added resellers ("VARs") and software retailers (collectively, "Resellers"). The Company expects that any material increase in sales through Resellers as a percentage of total revenues, especially in the percentage of sales through OEMs and VARs, will adversely affect the Company's average selling prices and gross margins due to the lower unit prices that are typically charged when selling through indirect channels. Moreover, there can be no assurance that the Company will be able to attract Resellers that will be able to market the Company's products effectively and will be qualified to provide timely and cost-effective customer support and service or that the Company will be able to manage conflicts among its Resellers. In addition, the Company's agreements with Resellers typically do not restrict Resellers from distributing competing products, and in many cases may be terminated by either party without cause. Further, in some cases the Company has granted exclusive distribution rights that are limited by territory and in duration. Consequently, the Company may be adversely affected should any Reseller fail to adequately penetrate its market segment. The inability to recruit, manage or retain important Resellers, or their inability to penetrate their respective market segments, could materially adversely affect the Company's business, operating results or financial condition. See "Business — Marketing and Distribution."

The Company plans to expand its field sales force and its telesales organization. There can be no assurance that such internal expansion will be successfully completed, that the cost of such expansion will not exceed the revenues generated, or that the Company's sales and marketing organization will be able to successfully compete against the significantly more extensive and well-funded sales and marketing operations of many of the Company's current or potential competitors. The Company's inability to effectively manage its internal expansion could have a material adverse effect on the Company's business, operating results or financial condition.

In addition to expanding its direct sales channels, the Company will continue to distribute its products electronically through the Internet. Distributing the Company's products through the Internet makes the Company's software more susceptible than other software to unauthorized copying and use. The Company has historically allowed and currently intends to continue to allow potential customers to electronically download its client and server software for a free evaluation period. There can be no assurance that, upon expiration of the evaluation period, the Company will be able to collect payment from users that retain a copy of the Company's software. In addition, by distributing its products for free evaluation over the Internet, the Company may have reduced the future demand for its products. If, as a result of changing legal interpretations of liability for unauthorized use of the Company's software or otherwise, users were to become less sensitive to avoiding copyright infringement, the Company's business, operating results and financial condition would be materially adversely affected.

Management of Growth. The rapid execution necessary for the Company to fully exploit the market window for its products and services requires an effective planning and management process. The Company's rapid growth has placed, and is expected to continue to place, a significant strain on the Company's managerial, operational and financial resources. As of June 30, 1995, the Company had grown to 257 employees from 115 employees on December 31, 1994, and the Company expects this rapid growth to continue. The Company recently hired James L. Barksdale as its new President and Chief Executive Officer in January 1995 and Peter L.S. Currie as its Vice President and Chief Financial Officer in April 1995. In addition, most of the Company's development and engineering staff was only recently hired. To manage its growth, the Company must continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. For example, the Company is currently in the process of building its internal maintenance and support organization. The Company is also in the process of evaluating and purchasing a major new management information system. There can be no assurance that the Company will be able to purchase or successfully implement this system on a timely basis. Further, the Company will be required to manage multiple relationships with various customers and other third parties. Although the Company believes that it has made adequate allowances for the costs and risks associated with this expansion, there can be no assurance that the Company's systems, procedures or controls will be adequate to support the Company's operations or that Company management will be able to achieve the rapid execution necessary to fully exploit the market window for the Company's products and services. The Company's future operating results will also

depend on its ability to expand its sales and marketing organizations, implement and manage new distribution channels to penetrate different and broader markets and expand its support organization commensurate with the increasing base of its installed products. If the Company is unable to manage growth effectively, the Company's business, operating results and financial condition will be materially adversely affected. See "Business — Research and Development" and "— Employees."

Security Risks and System Disruptions. The Company has included in its products an implementation of the Secure Sockets Layer ("SSL"), a security protocol which operates in conjunction with encryption and authentication technology licensed from RSA Data Security, Inc. ("RSA"). Despite the existence of these technologies, the Company's products may be vulnerable to break-ins and similar disruptive problems caused by Internet users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the computer systems of end users of the Company's products, which may result in significant liability to the Company and may also deter potential customers. Persistent security problems continue to plague public and private data networks. Recent break-ins reported in the press and otherwise occurred at General Electric Co. ("GE"), Sprint Corporation ("Sprint") and IBM, as well as the computer systems of NETCOM On-Line Communication Services, Inc. ("NETCOM") and the San Diego Supercomputer Center. Such incidents involved hackers bypassing firewalls and misappropriating confidential information. Alleviating problems caused by third parties may require significant expenditures of capital and resources by the Company and may cause interruptions, delays or cessation of service to the Company's customers; such expenditures or interruptions could have a material adverse effect on the Company's business, operating results or financial condition. Moreover, the security and privacy concerns of existing and potential customers, as well as concerns related to computer viruses, may inhibit the growth of the Internet marketplace generally, and the Company's customer base and revenues in particular. The Company attempts to limit its liability to customers, including liability arising from a failure of the security feature contained in the Company's products, through contractual provisions. However, there can be no assurance that such limitations will be enforceable. The Company currently does not have product liability insurance to protect against these risks and there can be no assurance that such insurance will be available to the Company on commercially reasonable terms or at all. See "Business — Security Risks."

In addition, the Company maintains secure Web servers which contain confidential information of the Company and its customers. The Company's operations are dependent in part upon its ability to protect its internal network infrastructure against damage from physical break-ins, natural disasters, operational disruptions and other events. Physical break-ins could result in the theft or loss of confidential or critical business information of the Company or its customers. Any such break-in or damage or failure that causes interruptions in the Company's operations could materially adversely affect the Company's business, operating results or financial condition. See "Business — Facilities."

Government Regulation and Legal Uncertainties. The Company is not currently subject to direct regulation by any government agency, other than regulations applicable to businesses generally, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet, covering issues such as user privacy, pricing and characteristics and quality of products and services. For example, the Exon Bill (which was recently approved by the Senate) would prohibit distribution of obscene, lascivious or indecent communications on the Internet. The adoption of any such laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for the Company's products and increase the Company's cost of doing business or otherwise have an adverse effect on the Company's business, operating results or financial condition. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, libel and personal privacy is uncertain. Further, due to the encryption technology contained in the Company's products, such products are subject to U.S. export controls. There can be no assurance that such export controls, either in their current form or as may be subsequently enacted, will not limit the Company's ability to distribute products outside of the United States or electronically. While Netscape takes precautions against unlawful exportation, the global nature of the Internet makes it virtually impossible to effectively control the distribution of the Company's products. In addition, federal or state legislation or regulation may further limit levels of encryption or

authentication technology. Any such export restrictions, new legislation or regulation or unlawful exportation could have a material adverse impact on the Company's business, operating results or financial condition. See "Business — Marketing and Distribution."

Dependence on the Internet. Although some sales of the Company's products will depend upon growth of private IP networks, sales of the Company's products will depend in large part upon a robust industry and infrastructure for providing Internet access and carrying Internet traffic. The Internet may not prove to be a viable commercial marketplace because of inadequate development of the necessary infrastructure, such as a reliable network backbone or timely development of complementary products, such as high speed modems. Because global commerce and online exchange of information on the Internet and other similar open wide area networks are new and evolving, it is difficult to predict with any assurance whether the Internet will prove to be a viable commercial marketplace. There can be no assurance that the infrastructure or complementary products necessary to make the Internet a viable commercial marketplace will be developed, or, if developed, that the Internet will become a viable commercial marketplace. If the necessary infrastructure or complementary products are not developed, or if the Internet does not become a viable commercial marketplace, the Company's business, operating results and financial condition will be materially adversely affected. See "Business — Industry Background."

Dependence on Key Personnel. The Company's performance is substantially dependent on the performance of its executive officers and key employees, most of whom have worked together for only a short period of time. Given the Company's early stage of development, the Company is dependent on its ability to retain and motivate high quality personnel, especially its management and highly skilled development teams. The Company does not have "key person" life insurance policies on any of its employees. The loss of the services of any of its executive officers or other key employees could have a material adverse effect on the business, operating results or financial condition of the Company.

The Company's future success also depends on its continuing ability to identify, hire, train and retain other highly qualified technical and managerial personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be able to attract, assimilate or retain other highly qualified technical and managerial personnel in the future. The inability to attract and retain the necessary technical and managerial personnel could have a material adverse effect upon the Company's business, operating results or financial condition. See "Business — Employees" and "Management."

Proprietary Rights. In December 1994, the Company entered into an agreement with the University of Illinois (the "University") and Spyglass. Under the terms of the agreement, the University and Spyglass agreed not to assert any claim of trademark infringement arising out of the Company's prior use of the word "Mosaic" or other symbols or words used by the Company to market itself or its products. The University and Spyglass further agreed not to assert against the Company any claim of copyright infringement, trade secret misappropriation or related claims based on the Company's use of former University employees in the development of the Company's present and future products. As consideration for these covenants not to assert any such claims, the Company agreed to make certain payments to the University over a two-year period. If the Company does not make these payments within the specified time periods, the University or Spyglass could assert claims of intellectual property infringement against the Company. Such litigation could result in substantial costs and diversion of resources even if ultimately decided in favor of the Company. Further, although the Company believes that it has not infringed the intellectual property rights of the University or Spyglass, any such litigation and the outcome of such litigation could have a material adverse effect on the Company's business, operating results or financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business — Proprietary Rights."

The Company's success and ability to compete is dependent in part upon its proprietary technology. While the Company relies on trademark, trade secret and copyright law to protect its technology, the Company believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are more essential to establishing and maintaining a technology leadership position. The Company presently has no patents or patent applications pending. There can be no assurance that others will not develop technologies that are similar or superior to the Company's technology. The source code for the Company's proprietary

software is protected both as a trade secret and as a copyrighted work. The Company generally enters into confidentiality or license agreements with its employees, consultants and vendors, and generally controls access to and distribution of its software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's products or technology without authorization, or to develop similar technology independently. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries, and the global nature of the Internet makes it virtually impossible to control the ultimate destination of the Company's products. To license its products, the Company primarily relies on "shrink wrap" licenses that are not signed by the end-user and, therefore, may be unenforceable under the laws of certain jurisdictions. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult. There can be no assurance that the steps taken by the Company will prevent misappropriation of its technology or that such agreements will be enforceable. In addition, litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, operating results or financial condition.

Unisys Corporation ("Unisys") recently announced its intention to require the payment of royalties for the use of compression technology associated with the Graphics Interchange Format ("GIF"). Unysis asserts that this popular file format is based on compression technology patented by Unisys. The Company's products have the ability to decompress files, including files stored in GIF. The Company has received notice of Unisys' intention to enforce or license such patent, and the Company is currently reviewing the matter in order to determine its response to such notice. The Company could incur additional costs and liability should its products be found to be within the scope of the Unisys patent. The assertion of these patent rights by Unisys, if successful, could result in additional costs to the Company or prevent the Company's products from enabling users to view files compressed in GIF. There can be no assurance that the Company's products are not within the scope of the Unysis patent. From time to time the Company has, in addition to the notice from Unisys, received, and may receive in the future, notice of claims of infringement of other parties' proprietary rights. Although the Company does not believe that its products infringe the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company or that any such assertions or prosecutions will not materially adversely affect the Company's business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company would incur significant costs and diversion of resources with respect to the defense thereof which could have a material adverse effect on the Company's business, financial condition or results of operations. If any claims or actions are asserted against the Company, the Company may seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that under such circumstances, a license would be available on reasonable terms or at all.

The Company also relies on certain technology which it licenses from third parties, including software which is integrated with internally developed software and used in the Company's products to perform key functions. There can be no assurance that these third party technology licenses will continue to be available to the Company on commercially reasonable terms. The loss of or inability to maintain any of these technology licenses could result in delays or reductions in product shipments until equivalent technology could be identified, licensed and integrated. Any such delays or reductions in product shipments would adversely affect the Company's business, operating results and financial condition. See "Business — Proprietary Rights."

Risks Associated with International Expansion. A key component of the Company's strategy is its planned expansion into international markets. In particular, the Company intends to establish foreign subsidiaries in Europe by the end of 1995. If the international revenues generated by these subsidiaries are not adequate to offset the expense of establishing and maintaining these foreign operations, the Company's business, operating results or financial condition could be materially adversely affected. To date, the Company has only limited experience in developing localized versions of its products and marketing and distributing its

products internationally. There can be no assurance that the Company will be able to successfully market, sell and deliver its products in these markets. In addition to the uncertainty as to the Company's ability to expand its international presence, there are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, export restrictions, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, fluctuations in currency exchange rates, seasonal reductions in business activity during the summer months in Europe and certain other parts of the world and potentially adverse tax consequences, which could adversely impact the success of the Company's international operations. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international operations and, consequently, on the Company's business, operating results and financial condition. See "Business — Marketing and Distribution."

Lengthy Sales Cycle. The license of the Company's integrated applications software products generally involves a significant commitment of capital by prospective customers, with the attendant delays frequently associated with large capital expenditures and lengthy acceptance procedures. For these and other reasons, the sales cycle associated with the license of the Company's integrated applications products is typically lengthy and subject to a number of significant risks over which the Company has little or no control and, as a result, the Company believes that its quarterly operating results are likely to vary significantly in the future.

Concentration of Stock Ownership. Upon completion of this offering, the present directors, executive officers and their respective affiliates will beneficially own approximately 62% of the outstanding Common Stock assuming no exercise of the Underwriters' over-allotment option and 61% of the outstanding Common Stock assuming full exercise of the Underwriters' over-allotment option. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company. See "Description of Capital Stock — Antitakeover Effects of Provisions of the Certificate of Incorporation, Bylaws and Delaware Law" and "Principal Stockholders."

No Prior Public Market; Possible Volatility of Stock Price. Prior to this offering, there has been no public market for the Company's Common Stock, and there can be no assurance that an active public market for the Common Stock will develop or be sustained after the offering. The initial offering price will be determined by negotiation between the Company and the Underwriters based upon several factors. See "Underwriters" for a discussion of the factors to be considered in determining the initial public offering price. The market price of the Company's Common Stock is likely to be highly volatile and could be subject to wide fluctuations in response to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on the Company's business, operating results and financial condition. These broad market fluctuations may adversely affect the market price of the Company's Common Stock. See "Underwriters."

Shares Eligible for Future Sale. Sales of a substantial number of shares of Common Stock in the public market following this offering could adversely affect the market price for the Common Stock. See "Shares Eligible for Future Sale" and "Description of Capital Stock."

Effect of Certain Charter Provisions; Antitakeover Effects of Certificate of Incorporation, Bylaws and Delaware Law. The Board of Directors has the authority to issue up to 5,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be

issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. The Company has no present plans to issue shares of Preferred Stock. Further, certain provisions of the Company's Amended and Restated Certificate of Incorporation, including provisions that create a classified board of directors, and Amended and Restated Bylaws and of Delaware law could delay or make difficult a merger, tender offer or proxy contest involving the Company. See "Management — Executive Officers and Directors," "Description of Capital Stock — Preferred Stock" and "— Antitakeover Effects of Provisions of the Certificate of Incorporation, Bylaws and Delaware Law."

Dilution. Investors participating in this offering will incur immediate, substantial dilution. To the extent outstanding options to purchase the Company's Common Stock are exercised, there will be further dilution. See "Dilution."

USE OF PROCEEDS

The net proceeds to the Company from the sale of 3,500,000 shares of Common Stock being offered hereby are estimated to be approximately $41.6 million at an assumed initial public offering price of $13.00 per share (approximately $47.9 million if the Underwriters' over-allotment option is exercised in full). The principal purposes of this offering are to obtain additional capital, create a public market for the Company's Common Stock and facilitate future access by the Company to public equity markets. The Company expects to use the net proceeds from this offering for general corporate purposes, including working capital and capital expenditures. A portion of the proceeds may also be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies; however, the Company has no present plans, agreements or commitments and is not currently engaged in any negotiations with respect to any such transactions. Pending use of the net proceeds for the above purposes, the Company intends to invest such funds in short-term, interest-bearing, investment grade obligations.

DIVIDEND POLICY

The Company has never paid cash dividends on its Common Stock or other securities. The Company currently anticipates that it will retain all of its future earnings for use in the expansion and operation of its business and does not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth the total capitalization of the Company at June 30, 1995 and the as adjusted capitalization at June 30, 1995 assuming the conversion of each outstanding share of Preferred Stock into two shares of Common Stock and reflecting the sale by the Company of 3,500,000 shares of Common Stock offered hereby at an assumed initial public offering price of $13.00 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses:

	June 30, 1995	
	Actual	As Adjusted
Long-term obligations(1)	$ 2,236,331	$ 2,236,331
Total stockholders' equity:		
Preferred Stock, $0.0001 par value, issuable in series; 11,286,222 shares authorized, 9,008,222 shares issued and outstanding, actual; 5,000,000 shares authorized, none issued and outstanding, as adjusted	901	—
Common Stock, $0.0001 par value; 30,000,000 shares authorized, 15,145,000 shares issued and outstanding, actual; 100,000,000 shares authorized, 36,661,444 shares issued and outstanding, as adjusted(2)	1,514	3,666
Additional paid-in capital	39,683,666	81,247,415
Notes receivable from stockholders	(638,065)	(638,065)
Deferred compensation	(9,812,151)	(9,812,151)
Accumulated deficit	(12,777,561)	(12,777,561)
Accumulated translation adjustment	16,217	16,217
Total stockholders' equity	16,474,521	58,039,521
Total capitalization	$ 18,710,852	$ 60,275,852

(1) See Notes 4 and 5 of Notes to Consolidated Financial Statements.

(2) As of June 30, 1995, there were options outstanding to purchase a total of 855,000 shares of Common Stock at a weighted average exercise price of $7.91 per share and 443,672 shares were reserved for grant of future options under the Company's 1994 Stock Option Plan. The Company intends to terminate the 1994 Stock Option Plan effective upon the closing of this offering. In addition, in June 1995 the Board of Directors adopted, subject to stockholder approval, the 1995 Stock Plan, the 1995 Employee Stock Purchase Plan and the 1995 Director Option Plan, pursuant to which 4,500,000, 1,000,000 and 100,000 shares, respectively, were reserved for issuance thereunder. As of June 30, 1995, no options or shares had been issued under any of these plans. See "Management — Stock Plans" and Notes 6 and 10 of Notes to Consolidated Financial Statements.

DILUTION

The net tangible book value of the Company as of June 30, 1995 was $16,232,746 or $0.49 per share of Common Stock. Net tangible book value per share is determined by dividing the net tangible book value of the Company (total tangible assets less total liabilities) by the number of outstanding shares of Common Stock at that date (assuming the conversion of each outstanding share of Preferred Stock into two shares of Common Stock). After giving effect to the sale by the Company of the 3,500,000 shares of Common Stock offered hereby (based upon an assumed initial public offering price of $13.00 per share and after deduction of estimated underwriting discounts and commissions and estimated offering expenses), the Company's pro forma net tangible book value at June 30, 1995 would have been $57,797,746 or $1.58 per share. This represents an immediate increase in net tangible book value to existing stockholders of $1.09 per share and an immediate dilution to new investors of $11.42 per share. The following table illustrates the per share dilution:

Assumed initial public offering price per share		$13.00
Net tangible book value per share as of June 30, 1995	$ 0.49	
Increase in net tangible book value per share attributable to new investors	1.09	
Pro forma net tangible book value per share after offering		1.58
Dilution per share to new investors		$11.42

The following table sets forth on a pro forma basis as of June 30, 1995 the difference between the number of shares of Common Stock purchased from the Company, the total consideration paid, and the average price per share paid by the existing stockholders and by the new investors (based upon an assumed initial public offering price of $13.00 per share before deduction of estimated underwriting discounts and commissions and estimated offering expenses), assuming the conversion of each outstanding share of Preferred Stock into two shares of Common Stock:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	33,161,444	90.5%	$29,287,961	39.2%	$ 0.88
New investors	3,500,000	9.5	45,500,000	60.8	13.00
Total	36,661,444	100.0%	$74,787,961	100.0%	

The foregoing table assumes no exercise of the Underwriters' over-allotment option and no exercise of stock options outstanding at June 30, 1995. As of June 30, 1995, there were options outstanding to purchase a total of 855,000 shares of Common Stock at a weighted average exercise price of $7.91 per share and 443,672 shares were reserved for grant of future options under the Company's 1994 Stock Option Plan. The Company intends to terminate the 1994 Stock Option Plan effective upon the closing of this offering. In addition, in June 1995 the Board of Directors adopted, subject to stockholder approval, the 1995 Stock Plan, the 1995 Employee Stock Purchase Plan and the 1995 Director Option Plan, pursuant to which 4,500,000, 1,000,000 and 100,000 shares, respectively, were reserved for issuance thereunder. To the extent that any of these options are exercised, there will be further dilution to new investors. As of June 30, 1995, no options or shares had been issued under any of these plans. See "Capitalization," "Management — Stock Plans" and Notes 6 and 10 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The consolidated statement of operations data set forth below with respect to the period from inception (April 4, 1994) to December 31, 1994, and the consolidated balance sheet data at December 31, 1994, are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Prospectus and should be read in conjunction with those consolidated financial statements and notes thereto. The consolidated statement of operations data for the period from inception (April 4, 1994) to June 30, 1994, the quarter ended March 31, 1995, the quarter ended June 30, 1995, the six months ended June 30, 1995 and the balance sheet data at June 30, 1995, are derived from unaudited consolidated financial statements that have been prepared on the same basis as the audited financial statements and in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations for such period. The historical results are not necessarily indicative of the results of operations to be expected in the future.

	Inception (April 4, 1994) to June 30, 1994	Inception (April 4, 1994) to December 31, 1994	Quarter Ended March 31, 1995	Quarter Ended June 30, 1995	Six Months Ended June 30, 1995
Consolidated Statement of Operations Data:					
Revenues:					
Product revenues	—	$ 378,490	$ 4,496,031	$11,084,227	$15,580,258
Service revenues	—	317,381	241,560	803,573	1,045,133
Total revenues	—	695,871	4,737,591	11,887,800	16,625,391
Cost of revenues:					
Cost of product revenues	—	114,777	273,169	948,876	1,222,045
Cost of service revenues	—	104,313	176,875	336,892	513,767
Total cost of revenues	—	219,090	450,044	1,285,768	1,735,812
Gross profit	—	476,781	4,287,547	10,602,032	14,889,579
Operating expenses:					
Research and development	172,065	2,031,986	1,981,292	4,133,860	6,115,152
Sales and marketing	48,369	2,813,689	2,782,772	6,473,294	9,256,066
General and administrative	232,519	1,669,193	1,740,524	1,952,481	3,693,005
Property rights agreement and related charges	—	2,486,688	500,000	—	500,000
Total operating expenses(1)	452,953	9,001,556	7,004,588	12,559,635	19,564,223
Operating loss	(452,953)	(8,524,775)	(2,717,041)	(1,957,603)	(4,674,644)
Interest income	—	55,238	45,074	450,509	495,583
Interest expense	—	(308)	(27,056)	(101,599)	(128,655)
Net loss	$ (452,953)	$(8,469,845)	$(2,699,023)	$(1,608,693)	$(4,307,716)
Net loss per share	$ (0.01)	$ (0.25)	$ (0.08)	$ (0.05)	$ (0.13)
Shares used in computing net loss per share	31,995,573	33,484,462	34,228,906	34,228,906	34,228,906

	December 31, 1994	June 30, 1995
Consolidated Balance Sheet Data:		
Working capital (deficit)	$(1,337,613)	$10,698,225
Total assets	7,158,641	42,531,203
Long-term obligations	725,000	2,236,331
Stockholders' equity	1,083,585	16,474,521

(1) Total operating expenses for the quarter ended March 31, 1995, the quarter ended June 30, 1995 and the six months ended June 30, 1995 include $861,512, $413,390 and $1,274,902, respectively, in amortization of deferred compensation related to stock option grants. See Note 6 of Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Netscape Communications Corporation is a leading provider of open client, server and integrated applications software that enables information exchange and commerce over the Internet and private IP networks. From inception (April 4, 1994) to June 30, 1994, the Company's operating activities related primarily to recruiting personnel, raising capital, purchasing operating assets and performing research and development. The Company commenced shipments of its initial products and recognized its initial revenues in December 1994. Through June 30, 1995, the Company derived the substantial majority of its revenues from product licenses. In particular, for the quarters ended March 31, 1995 and June 30, 1995, licenses of Netscape Navigator accounted for 49% and 65%, respectively, of the Company's total revenues. In addition, licenses of the Company's server and integrated applications software products in the quarters ended March 31, 1995 and June 30, 1995 accounted for 36% and 28%, respectively, of the Company's total revenues. The substantial majority of the revenues from server and integrated applications software products was attributable to Netscape Commerce Server. Bundled product licenses that included both Netscape Navigator and Netscape Commerce Server accounted for an additional 9% of the Company's total revenues in the quarter ended March 31, 1995 and were insignificant in the quarter ended June 30, 1995. The Company expects that revenues attributable to its server and integrated applications software products will increase as a percentage of total revenues in the future.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets. To address these risks, the Company must, among other things, respond to competitive developments, continue to attract, retain and motivate qualified persons, and continue to upgrade its technologies and commercialize products and services incorporating such technologies. There can be no assurance that the Company will be successful in addressing such risks. The Company has incurred net losses since inception and expects to continue to operate at a loss for the foreseeable future. As of June 30, 1995, the Company had an accumulated deficit of $12.8 million. Although the Company has experienced revenue growth in recent periods, such growth rates will not be sustainable and are not indicative of future operating results. There can be no assurance that the Company will achieve or sustain profitability.

Results of Operations

Revenues

The Company derives its revenues from license fees for its software products and fees for services, which are generally charged separately from software licenses. Product revenues consist of product licensing fees, and service revenues consist of fees for maintenance and support services, training, consulting and advertising space. Product revenues are generally recognized upon delivery, net of allowances for estimated future returns, provided that no significant obligations of the Company remain and collection of the resulting receivable is deemed probable. Product returns and sales allowances (which have not been significant through June 30, 1995) and costs of free telephone support are estimated and provided for at the time of sale. Service revenues from customer maintenance fees for ongoing customer support and product updates are recognized ratably over the term of the maintenance period, which is typically 12 months. Payments for maintenance fees are generally made in advance and are non-refundable. Service revenues from training and consulting are recognized when the services are performed. Service revenues from the sale of advertising space are recognized in the period in which the advertisement is displayed on a Web page of the Company.

Total Revenues. Total revenues were $696,000, $4,738,000 and $11,888,000 for the period from inception (April 4, 1994) through December 31, 1994 (the "Inception Period"), the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively. The Inception Period reflects only two weeks of product sales. The quarter ended March 31, 1995 is the first full quarter in which the Company's products and services were made commercially available. Licenses to Digital and SGI accounted for 14% and 9%,

respectively, of total revenues in the quarter ended March 31, 1995. Licenses to Access Graphics, a distributor, accounted for 11% of total revenues in the quarter ended June 30, 1995.

Product Revenues. Product revenues were $378,000, $4,496,000 and $11,084,000 for the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively. Product revenues in the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995 were primarily attributable to licenses of Netscape Navigator, Netscape Commerce Server and Netscape Communications Server. During each of these periods, licenses of Netscape Navigator accounted for a majority of the Company's product revenues. Product revenues increased from the quarter ended March 31, 1995 to the quarter ended June 30, 1995 due primarily to increased licenses of Netscape Navigator and Netscape Commerce Server and, to a lesser extent, to licenses of Netscape Proxy Server, which was introduced in the quarter ended June 30, 1995, and Netscape Merchant System.

Through the quarter ended March 31, 1995, the Company had distributed substantially all of its products through direct sales (including field sales and telesales), sales over the Internet through the Company's electronic store and OEMs. In the quarter ended June 30, 1995, the Company began offering its products through VARs and through distribution for retail sale. Currently, only the Company's Netscape Navigator Personal Edition product is being offered through distribution for retail sale.

Service Revenues. Service revenues were $317,000, $242,000 and $804,000 for the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively. In each of the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, service revenues were attributable to fees for consulting, maintenance and support and, to a lesser extent, to fees for training. Service revenues increased from the quarter ended March 31, 1995 to the quarter ended June 30, 1995 due primarily to increased consulting, maintenance and support provided to a larger installed base and, to a lesser extent, to the initial sales of advertising space. The Company expects that service revenues will increase as a percentage of total revenues in the future.

International Revenues. International revenues (sales outside of North America) were immaterial in the Inception Period and were approximately 10% and 14% of total revenues for the quarters ended March 31, 1995 and June 30, 1995, respectively. As of June 30, 1995, all international revenues had been recognized by the U.S. parent corporation and denominated in U.S. currency. The Company established a subsidiary in Japan in December 1994 and intends to establish subsidiaries in Europe. Although its Japanese subsidiary had not recognized any revenues as of June 30, 1995, it had entered into several OEM reseller arrangements pursuant to which it has received prepaid royalty payments denominated and collected in Japanese currency. Such prepaid royalties have been deferred at June 30, 1995 due to the Company's remaining obligation to deliver foreign country localized versions of its products. The Company expects to invoice customers of its international subsidiaries in local currencies. The Company has not engaged in foreign currency hedging activities, and international revenues are currently subject to currency exchange fluctuation risks. The Company anticipates that international revenues will increase as a percentage of total revenues in the future, and, as a result, foreign currency exposure may increase.

Cost of Revenues

Cost of Product Revenues. Cost of product revenues consists primarily of the cost of product media and duplication, manuals, packaging materials, amounts paid for licensed technology, and fees paid to third party vendors for sales administration, order fulfillment and free telephone support. Cost of product revenues was $115,000, $273,000 and $949,000 for the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively, and was 30%, 6% and 9%, respectively, of the related product revenues. In each of the periods, the cost of product revenues consisted primarily of the cost of product media and duplication, manuals, packing materials and fees paid to third party vendors. Cost of product revenues increased from the quarter ended March 31, 1995 to the quarter ended June 30, 1995 due primarily to increased costs related to increased product licenses and, to a lesser extent, to the amortization of amounts paid for licensed technology and costs associated with free telephone support. The Company believes that cost of product revenues may increase as a percentage of the related product revenues in future periods due to

increased amounts paid for licensed technology to be incorporated in future products and increased (associated with providing free telephone support. In particular, the Company expects that the cost providing free telephone support will continue to correspondingly increase with any increase in the numb licenses of its Netscape Navigator Personal Edition product, which is offered through retail channels. Som the Company's products include free telephone support for a certain period of time and such costs are accr at the time of sale. Increases in the cost of product revenues as a percentage of the related product rever would adversely effect gross margins. All development costs incurred to date in the research and developn of new software products and enhancements to existing software products have been expensed as incurred. a result, cost of product revenues does not include amortization of capitalized software development costs. Note 1 of Notes to Consolidated Financial Statements.

Cost of Service Revenues. Cost of service revenues consists primarily of personnel related costs incur in providing customer support, consulting services and training to customers. Cost of service revenues a includes fees paid to a third party related to the sale of advertising space on the Company's Web pages. Cos service revenues was $104,000, $177,000 and $337,000 for the Inception Period, the quarter ended March 1995 and the quarter ended June 30, 1995, respectively, and was 33%, 73% and 42%, respectively, of rela service revenues. In each of the periods, the cost of service revenues related primarily to outside consulti services and to maintenance, support and consulting provided by the Company. Cost of service reven increased from the quarter ended March 31, 1995 to the quarter ended June 30, 1995 primarily due increased staffing necessary to provide consulting, maintenance and support to a larger installed base and increased use of outside consulting services. In future periods, the Company believes that the cost of servi revenues will increase as a percentage of the related service revenues as a result of personnel related co incurred in building the Company's customer support and training organizations and due to fees incurred connection with selling advertising space. Increases in the cost of service revenues as a percentage of relat service revenues would have an adverse impact on the Company's gross margins.

Gross margins may be impacted by the mix of distribution channels used by the Company, the mix products sold, the mix of product revenues versus service revenues and the mix of international versus Nort American revenues. The Company typically realizes higher gross margins on direct sales than on sales throug indirect channels and higher gross margins on product revenues than on service revenues. If sales throug indirect channels, especially OEMs and VARs, increase as a percentage of total revenues, or if, as th Company anticipates, service revenues increase as a percentage of total revenues, the Company's gros margins will be adversely impacted.

Operating Expenses

The Company's operating expenses have increased in absolute dollar amounts in every consecutive quarter through the quarter ended June 30, 1995. This trend reflects the Company's rapid transition from the product development phase to its first two full quarters of marketing and licensing products and offering services. The Company believes that continued expansion of operations is essential to achieving and maintaining market leadership. As a consequence, the Company intends to continue to increase expenditures in all operating areas.

The Company has recorded deferred compensation of $11,087,000 for the difference between the grant price and the deemed fair value of the Company's Common Stock for 10,199,000 shares subject to options granted in the first six months of 1995. Deferred compensation expense attributed to 2,000,000 shares of Common Stock was fully amortized in the quarter ended March 31, 1995, as such shares were fully vested upon grant. The remaining deferred compensation will be amortized to operating expense over the related 50-month vesting period of the shares and will therefore continue to have a material adverse impact on the Company's results of operations. See Note 6 of Notes to Consolidated Financial Statements.

Research and Development. Research and development expenses consist primarily of salaries and consulting fees to support product development. Research and development expenses were $2,032,000, $1,981,000 and $4,134,000 for the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively, and were 292%, 42% and 35%, respectively, of total revenues. The dollar increase

from the quarter ended March 31, 1995 to the quarter ended June 30, 1995 was primarily attributable to increased staffing and associated costs and to fees paid to consultants. Research and development expenses for the quarters ended March 31, 1995 and June 30, 1995 included non-cash charges of $16,000 and $117,000, respectively, related to the amortization of deferred compensation. To date, all software development costs have been expensed as incurred. The Company believes that significant investments in research and development are required to remain competitive in the software business. As a consequence, the Company intends to increase the absolute amount of its research and development expenditures in the future.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries (including sales commissions), consulting fees, trade show expenses, advertising and cost of marketing literature. Sales and marketing expenses were $2,814,000, $2,783,000 and $6,473,000, respectively, for the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively, and were 404%, 59% and 54%, respectively, of total revenues. The dollar increase from the quarter ended March 31, 1995 to the quarter ended June 30, 1995 was primarily attributable to increased staffing and to sales commissions on higher sales. Sales and marketing expenses for the quarters ended March 31, 1995 and June 30, 1995 included non-cash charges of $25,000 and $105,000, respectively, related to the amortization of deferred compensation. The Company intends to increase the level of sales and marketing expenses in future periods.

General and Administrative. General and administrative expenses consist primarily of salaries and fees for professional services. General and administrative expenses were $1,669,000, $1,741,000 and $1,952,000 for the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively, and were 240%, 37% and 16%, respectively, of total revenues. General and administrative expenses for the quarters ended March 31, 1995 and June 30, 1995 included non-cash charges of $821,000 and $191,000, respectively, related to the amortization of deferred compensation. The increased amortization of deferred compensation expense in the quarter ended March 31, 1995 as compared to the quarter ended June 30, 1995 was due to the grant by the Company in the quarter ended March 31, 1995 of an option pursuant to which 2,000,000 shares of Common Stock were fully vested upon grant. The Company intends to increase the level of general and administrative expenses in future periods.

Property Rights Agreement and Related Charges. The Company has segregated certain expenses totaling $2,487,000 and $500,000 for the Inception Period and for the quarter ended March 31, 1995, respectively. These expenses relate to an agreement with the University of Illinois and Spyglass and associated costs, including fees for expert and professional services, trademark search costs and other related expenses. The Company will incur additional charges related to this agreement in the event that it enters into certain types of agreements with two specified companies. See Note 5 of Notes to Consolidated Financial Statements.

Income Taxes

As of December 31, 1994, the Company had federal net operating loss carryforwards of approximately $7,000,000. The Company also had federal research and development tax credit carryforwards of approximately $90,000. The federal net operating loss and credit carryforwards will expire in 2009 if not utilized. The Company also has state net operating loss carryforwards of approximately $5,000,000 which will expire in 2002 if not utilized. Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. See Note 7 of Notes to Consolidated Financial Statements.

Factors Affecting Operating Results

As a result of the Company's limited operating history, the Company does not have historical financial data for a significant number of periods on which to base planned operating expenses. Accordingly, the Company's expense levels are based in part on its expectations as to future revenues and to a large extent are fixed. However, the Company typically operates with no backlog. As a result, quarterly sales and operating results generally depend on the volume and timing of and ability to fulfill orders received within the quarter, which are difficult to forecast. The Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenues shortfall. Accordingly, any significant shortfall of demand for the Company's products and services in relation to the Company's expectations would have an immediate adverse

impact on the Company's business, operating results and financial condition. In addition, the Company plans to increase its operating expenses to fund greater levels of research and development, increase its sales and marketing operations, develop new distribution channels and broaden its customer support capabilities. To the extent that such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results and financial condition will be materially adversely affected.

The Company expects to experience significant fluctuations in future quarterly operating results that may be caused by many factors, including demand for the Company's products, introduction or enhancement of products by the Company and its competitors, market acceptance of new products, mix of distribution channels through which products are sold, mix of products and services sold, mix of international and North American revenues, and general economic conditions. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. Due to all of the foregoing factors, it is likely that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially adversely affected.

Liquidity and Capital Resources

The Company has primarily financed its operations through private sales of equity securities. In the six months ended June 30, 1995, cash provided by operating activities of $7,290,000 was primarily attributable to increases in deferred revenues and accounts payable, partially offset by the growth in accounts receivable and a net loss. Cash used in investment activities of $22,135,000 in the six months ended June 30, 1995 related primarily to $16,567,000 in short-term investment purchases and $4,955,000 in capital expenditures. Cash flows from financing activities of $20,470,000 in the six months ended June 30, 1995 were primarily attributable to the net proceeds of $17,300,000 from the issuance of Series C Preferred Stock and borrowings of $2,200,000 under a debt facility.

Deferred revenues consist of the unrecognized portion of service revenues received pursuant to maintenance and support contracts and the unrecognized portion of product revenues received pursuant to reseller agreements with significant obligations remaining. Pursuant to the reseller agreements, the Company typically receives non-refundable prepaid royalties. The significant obligations resulting in the deferral of revenues relate primarily to unreleased products. Deferred revenues increased from $2,575,000 at December 31, 1994 to $14,964,000 at June 30, 1995 due to an increase in the number of reseller agreements, the amount of prepayments received from reseller agreements and, to a lesser extent, to the number of maintenance and support contracts.

Capital expenditures were approximately $2,663,000 and $4,955,000 for the Inception Period and the six months ended June 30, 1995, respectively. The Company has no material commitments other than obligations under a debt facility agreement and operating leases. The Company estimates that 1995 capital expenditures will be approximately $12,000,000, of which $5,000,000 is related to the implementation of a new management information system. See Notes 3 and 4 of Notes to Consolidated Financial Statements.

At June 30, 1995, the Company's principal source of liquidity was approximately $8,868,000 in cash and cash equivalents and $16,567,000 in short-term investments. Further, the Company has a $2,200,000 debt facility agreement, secured by certain assets of the Company, all of which was utilized at June 30, 1995. The outstanding obligations under this facility are payable in 36 monthly installments. See Note 4 of Notes to Consolidated Financial Statements.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," during the Inception Period. The adoption of SFAS No. 115 did not have a material impact on the Company's results of operations or financial condition.

The Company believes that the net proceeds from this offering, together with available funds and cash flows expected to be generated by operations, will be sufficient to meet its anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Thereafter, if cash generated by operations is insufficient to satisfy the Company's liquidity requirements, the Company may sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity or convertible debt securities will result in additional dilution to the Company's stockholders.

BUSINESS

Overview

Netscape is a leading provider of open client, server and integrated applications software that enables information exchange and commerce over the Internet and private IP networks. The Company's products are designed to deliver high levels of performance, ease of use and security. These products allow individuals and organizations to execute secure financial transactions across the Internet, such as the buying and selling of merchandise, publications, software and information. In addition, through the use of the Company's software, organizations can extend their internal information systems and enterprise applications to geographically dispersed facilities, remote offices and mobile employees.

Industry Background

Internet

The Internet is a global web of computer networks. Developed over 25 years ago, this "network of networks" allows any computer attached to the Internet to talk to any other using the Internet Protocol. The Internet has traditionally been subsidized by the U.S. federal government. As the number of commercial entities that rely on the Internet for business communications and commerce has increased, the level of federal subsidies has significantly diminished, and funding for the Internet infrastructure and backbone operations has shifted primarily to the private sector. Further, the Internet has historically been used by academic institutions, defense contractors and government agencies primarily for remote access to host computers and for sending and receiving e-mail. However, according to industry market research, in October 1994 the number of commercial domains on the Internet surpassed the number of educational domains. Industry sources also estimate that in the 12 months ending January 1995, approximately 2.6 million additional servers were connected to the Internet, for a total of approximately 4.9 million Internet servers.

Further, individuals are connecting directly to the Internet through Internet access services such as those provided by MCI Telecommunications Corporation ("MCI"), NETCOM, Performance Systems International, Inc. ("PSI"), and UUNET Technologies, Inc. ("UUNET"). These services are growing as easy-to-use software packages make accessing the Internet as easy as getting onto the popular consumer online services. To compete with these direct Internet access providers, consumer online services including America Online, Inc. ("AOL"), CompuServe, Inc. ("CompuServe"), and Prodigy Services Co. ("Prodigy"), have also introduced Internet access gateways for their existing subscribers. With these gateways, the online services effectively become large Internet "on-ramps," bringing large numbers of subscribers onto the Internet. International Data Corporation ("IDC") estimates that by the end of 1996, more than 16 million subscribers to consumer online services will have full Internet access, as compared to less than one million at the end of 1994.

World Wide Web

Much of the recent growth in Internet use by businesses and individuals has been driven by the emergence of a network of servers and information available on the Internet called the World Wide Web (the "Web"). The Web, based on a client/server model and a set of standards for information access and navigation, can be accessed using software that allows non-technical users to exploit the capabilities of the Internet. The Web enables users to find, retrieve and link information on the Internet in a consistent way that makes the underlying complexities transparent to the user. Electronic documents are published on Web servers in a common format described by the Hypertext Markup Language ("HTML"). Web client software can retrieve these documents across the Internet by making requests using a standard protocol called Hypertext Transfer Protocol ("HTTP"). The first Web client (or "browser") with a graphical user interface to utilize these protocols was NCSA Mosaic, first released in April 1993 by the National Center for Supercomputing Applications at the University of Illinois ("NCSA"). The Netscape Navigator, introduced in December 1994, was the first commercially available Web client to include built-in security capabilities, facilitating commercial transactions over the Internet.

The proliferation of Web clients has created significant demand for software to enable Internet servers and private servers on corporate networks to function as Web servers. These servers are used by organizations

to offer their products and services on the Internet and to publish confidential company information to employees inside the enterprise. Industry market research estimates that there were over 22,000 Web-capable servers on the Internet by May 1995, as compared with approximately 1,250 in June 1994. Web usage is expected to be further fueled by advances in Web client, server and application software, in concert with technological developments that drive cost reductions and performance enhancements.

Internet Commerce

The Internet provides organizations and individuals with new means to conduct business. Commercial uses of the Internet include business-to-business and business-to-consumer transactions, product marketing, advertising, entertainment, electronic publishing, electronic services and customer support. The Internet offers a new and powerful medium for traditional retail and mail order businesses to target and manage a wider customer base more rapidly, economically and productively. The Company believes that only a small fraction of this retail business is currently conducted electronically. Another important application for Internet commerce is electronic publishing through advertiser supported and fee-based Internet services. Electronic publishing offers substantial savings as compared to publishing on paper or computer discs. In addition, Web software permits the publishing of audio files and video clips as well as text and graphical data.

In addition to retailers and publishers, other new businesses are appearing on the Web as it provides access to a growing base of home, business and education customers. Business information providers such as DowJones, Individual, Inc., and Reuters have started customized news services on the Web. Financial service institutions are providing online banking information, stock information and trading services. Examples of popular consumer information services recently introduced include ESPNet, Knight-Ridder's Mercury Center and Sportsline U.S.A. Companies from many industries are publishing product and company information to their channel partners and customers, providing customer support via the Web, allowing customers to immediately buy products online, and collecting customer feedback and demographic information interactively.

Enterprise Applications

As an increasing number of organizations provide their employees with Web access from their desktops, an opportunity is emerging for internal information systems and enterprise applications hosted on internal Web servers. The Internet enables organizations to extend their internal information systems and enterprise applications to geographically dispersed facilities, remote offices, and mobile employees using Web client and server software. IDC estimates that the installed base of IP-enabled computers increased from 4.5 million in 1992 to 12.5 million in 1994. The Company believes that organizations will increasingly use private IP networks to improve communications, distribute information, lower operating costs and re-engineer operations.

For example, Web servers with secure communications capabilities will enable organizations to electronically publish confidential company information within departments and across company locations. Secure news servers can be used to host discussion groups and facilitate corporate communications in a manner similar to groupware products such as Lotus Notes. Through the use of Web client and server software, organizations can implement "team computing," thereby allowing engineers and product marketing people to collaborate more effectively to speed product development and improve time to market. In addition, sales, product and order information can be published in internal Web servers for access by a sales force to ensure that information critical to the selling process is readily available.

Netscape

Netscape is a leading provider of open client, server and integrated applications software that enables information exchange and commerce over the Internet and private IP networks. The Company's products are designed to deliver high levels of performance, ease of use and security. These products allow individuals and organizations to execute secure financial transactions across the Internet, such as the buying and selling of merchandise, publications, software and information. In addition, through the use of the Company's software, organizations can extend their internal information systems and enterprise applications to geographically dispersed facilities, remote offices and mobile employees.

The Company's goal is to make its software the de facto standard for publishing information and executing transactions on the Internet and private IP networks. The Company's strategy is to enable enhanced communications and electronic commerce by developing and offering industry leading software and services. The Company's strategy includes the following key elements:

Offer Complete Suite of Easy-to-Use, High Performance, Secure Software

To address the issues that have historically limited the use of the Internet as a popular communications network and commercial marketplace, the Company's products include the following features:

Comprehensive Product Line. The Company offers a suite of client, server and integrated applications software products that support communications, electronic commerce, electronic publishing and related uses for the enterprise and the individual.

Ease of Use. The Company's client software provides a consistent point and click graphical user interface that is independent of the server protocol, client operating system or means of network access. The Company's server software facilitates the operation of Web server sites by providing capabilities such as subscriber administration and content management.

High Performance and Scalability. The Company's products are engineered for rapid retrieval and display of information, even at the relatively low 14.4 kbps dial-up transmission speeds employed by many users. The Company's suite of products support a complete spectrum of multimedia content, including a variety of text, graphical images and audio and video formats, and are compatible with industry standard Web servers and browsers. In addition, the Company's server products employ a multiprocessing technology which enables them to support a large number of users.

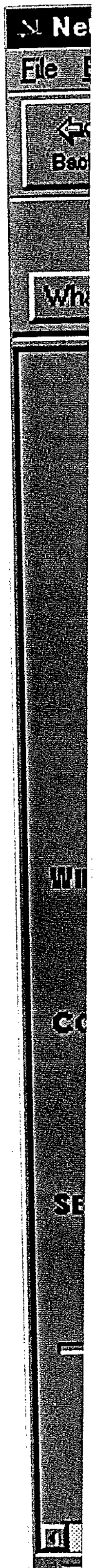
Multi-Platform Support. The Company's software is designed to operate on most popular computer platforms including Microsoft Windows and Windows NT, Apple Macintosh and numerous versions of the Unix operating system. In addition, the Company expects to support Windows 95.

Enhanced Security. The Company's products employ leading IBM OS/2 open standards for data and communications security and are designed to enable secure commerce and communications. The Company has defined and implemented its security architecture, the Secure Sockets Layer ("SSL"), based upon encryption and server authentication technology licensed from RSA, a leader in computer data security. A group of 19 industry-leading companies in the banking, credit card, communications, software and computer hardware businesses have announced their support for SSL.

Leverage Relationships With Leading Strategic Partners

To accelerate the acceptance of the Company's products and facilitate the adoption of the Internet as a communications network and a commercial marketplace, the Company has developed strategic partnerships with leading technology, infrastructure and financial services partners.

Technology Providers. The Company has entered into and intends to further pursue selected technology licenses and partnerships. These relationships are designed to ensure the compatibility of Netscape's products with other complementary, leading technologies and tools. For example, to facilitate content creation and management for the Internet, the Company has worked with leading multimedia publishing providers, such as Adobe Systems Incorporated and Macromedia, Inc. To enhance the functionality of its Netscape Navigator Personal Edition client product, the Company has licensed complementary networking software from Shiva Corporation and the Eudora electronic mail application from Qualcomm, Inc. The Company also has a license to bundle the Oracle database with its integrated applications products. Further, Netscape intends to



Simplicity. Netscape Navigator has been designed to make the Internet easy to learn and u Netscape Navigator includes intuitive user interface technologies such as a toolbar for frequently us commands and bookmarks for quickly accessing Web sites. Additionally, Netscape Navigator wor transparently with other software such as search tools and personal productivity applications.

Open Standards. Netscape Navigator software communicates seamlessly with virtually all popul Internet server protocols, including HTTP, file transfer protocol ("FTP") and simple mail transp protocol ("SMTP"), making it compatible with the existing installed base of Web servers from a varie of vendors.

Security. Netscape Navigator is designed to provide enhanced security so communications wi servers across the Internet can be protected against third party access or interference. This security based on an encrypted data stream that will allow for future enhancements with new protocols.

Consistency Across Platforms. Netscape Navigator is available in functionally equivalent versio for Microsoft Windows, Apple Macintosh and various Unix platforms. This common look and feel is major advantage in mixed computing environments, minimizing training and support. Netscape h introduced its beta version of the Navigator for Microsoft Windows 95 and expects to ship th commercial version by the end of 1995.

The Company currently offers two versions of its Navigator client software:

Netscape Navigator LAN Edition. Netscape Navigator LAN Edition is intended for users who alread have IP connections to the Internet or internal networks. It incorporates all of the features described abov and is available for Microsoft Windows, Apple Macintosh and various Unix platforms. It is compatible with a standard IP implementations on these platforms.

Netscape Navigator Personal Edition. Netscape Navigator Personal Edition is intended for companie and individuals without direct IP connections who want dial-up access to the Internet. It includes a full integrated transmission controls protocol/Internet protocol ("TCP/IP") stack, an implementation of the Point to Point Protocol ("PPP"), a dialer and an e-mail application. All components are installed and configured through easy-to-use installation programs and feature automatic access to a choice of Interne service providers through Netscape's registration server.

Netscape Server Software

Netscape server software provides the basic communication services, security, administration and other capabilities necessary for implementing and operating Web server sites.

Multi-Platform Support. Netscape server software currently operates on Intel-compatible PCs and on many of the leading Unix platforms, including those from Digital, HP, IBM, SGI and Sun. Netscape's Communications and Commerce servers also operate on the Microsoft Windows NT operating system.

Open Standards. Netscape server products support the HTTP, HTML and SSL protocols and, as a result, are compatible with the installed base of Web browsers. The Company also intends to support the S-HTTP security protocol.

High Performance and Scalability. Netscape server products are based on process models which enable them to support a large number of users. Depending on the underlying platform, Netscape servers use either multi-threaded processing or a proprietary process management algorithm to efficiently handle peak demand. As a result, the Company believes its server software delivers documents faster than other HTTP servers.

Ease of Use. Netscape servers include automated installation and configuration capabilities, and improved user management and maintenance through use of intuitive, online forms.

Security. Certain Netscape server products employ SSL server authentication and data encryption based on technology licensed from RSA. Server authentication uses a certificate and a digital signature to verify the legitimacy of the server. Data encryption protects the privacy of client/server communications by encrypting the data stream between two entities.

The Netscape server software line currently includes three products: the Netscape Communications Server, the Netscape Commerce Server, and the Netscape Proxy Server. The Company expects that the Netscape News Server will be commercially available by the end of 1995.

Netscape Communications Server. The Netscape Communications Server enables organizations to publish on the Internet and to reach new audiences online. In addition, corporations may conduct cost-effective online marketing and customer support programs, and may facilitate internal communications and collaborations among employees and workgroups.

Netscape Commerce Server. The Netscape Commerce Server provides all of the functionality of the Communications Server, plus SSL-based security features for transactions conducted over the Internet. On enterprise networks, the security features can be used to restrict access to information and applications.

Netscape Proxy Server. The Netscape Proxy Server is designed to improve the performance and security of communications within a private IP network or between a private IP network and the Internet. Performance is improved because the server stores frequently accessed pages locally. Security is enhanced because the server provides encrypted communications through a firewall onto the Internet.

Netscape News Server. The Netscape News Server, which is expected to be commercially available by the end of 1995, is designed to enable companies to create their own public and private discussion groups for information exchange between employees, customers or any other audience. It is also designed to be compatible with the Internet's Usenet news hierarchy and will incorporate the open SSL protocol, allowing users to create secure forums for confidential or proprietary information exchange.

Integrated Applications

Netscape intends to offer comprehensive solutions that enable organizations to conduct full-scale electronic commerce on the Internet. These applications are being designed to address different business needs, including the presentation of multimedia formats, support for large numbers of merchants and products, the need for real time data management, support for special communities of interest, and the automation of high volumes of online transactions. All integrated applications are being designed to use the Netscape Commerce Server, which provides enhanced security, including data encryption and server authentication. These applications will be based on a modular architecture that enables integration between applications and the addition of Internet applications as needed. The integrated applications are being designed to provide the capability to manage large-scale commercial sites on the Internet.

All integrated applications are being designed to perform merchant authentication, credit authorization and transaction settlement. Merchant authentication will be performed by a certification authority that validates the server and gives it a signed digital signature that can be checked over the network. Credit card authorization will occur online by checking records to ensure no abnormal activity has occurred and that the transaction does not exceed the authorized credit limit. A merchant bank will perform transaction settlement by transferring funds from the customer's account to the merchant's account.

The Netscape Merchant System was commercially released by the Company in March 1995. The Company expects to commercially release the Netscape Publishing System, the Netscape Community System and the Netscape IStore by the end of 1995.

Netscape Merchant System. The Merchant System allows users to set up and manage virtual storefronts. By storing product information in a relational database, it provides the flexibility to add and delete products, change prices and import new graphics. Furthermore, display pages are automatically updated, which simplifies the task of managing thousands of products.

With the Merchant System, shoppers may browse or make multi-level queries and view automatically generated pages displaying items that meet their stated criteria. An electronic shopping basket allows shoppers to hold items and allows purchases of any one or many products at a time of a customer's choosing, even if the basket contains items from several merchants in the mall. At the point of sale, the Merchant System

automatically forwards the shopping basket and payment information to credit card authorization and processing partners.

Netscape Publishing System. The Publishing System, which is expected to be commercially available by the end of 1995, is being designed for fee-based electronic publishers. It is being designed to allow organizations to display and update information dynamically and to provide the billing and management tools to make electronic publishing on the Internet viable.

The Publishing System will manage critical data for a publisher: content, files, pricing information, access authorization, user demographic information and advertising response rates. It is being designed to display context-sensitive advertising to subscribers based upon specified criteria, including available demographic information, entry path and time. The Publishing System will archive past issues, link related stories and create HTML pages on the fly in response to user queries by concept or keyword.

Netscape Community System. The Community System, which is expected to be commercially available by the end of 1995, is being designed to give organizations the ability to create virtual communities based upon shared interest. It will support such popular activities as e-mail, bulletin boards and news groups. The Community System will let electronic publishers or merchants communicate with their customers in new ways, by explaining product features online and offering customer support.

Netscape IStore. Netscape IStore, which is expected to be commercially available by the end of 1995, is being designed to provide the integrated data management, on-line credit card authorization, billing and order-processing capabilities required for a single merchant to build and manage a virtual storefront. It will feature an embedded relational database for easy information tracking and management, pre-configured reports for easy information retrieval and analysis, and easy forms-based set-up and administration.

Authoring Tools

The Netscape authoring tools are currently under development by the Company and are currently scheduled for release in the first half of 1996. The Company is designing the Netscape authoring tools to provide content providers with a software solution for building an online presence. The authoring tools are intended to extend beyond document creation and to leverage existing multimedia and document creation tools and formats. Content providers are expected to be able to more productively create, manipulate and organize documents specifically for the Internet to include hypermedia content with images, audio and video. By integrating and organizing multiple content creation and management tools and standards, the authoring tools are expected to provide a more compelling content creation environment for content providers. The Company believes that these tools, once developed, will significantly enhance the ability of electronic merchants and publishers to develop Web sites.

Security Risks

The Company has included in its products an implementation of the Secure Sockets Layer ("SSL"), a security protocol which operates in conjunction with encryption and authentication technology licensed from RSA. Despite the existence of these technologies, the Company's products may be vulnerable to break-ins and similar disruptive problems caused by Internet users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the computer systems of end users of the Company's products, which may result in significant liability to the Company and may also deter potential customers. Persistent security problems continue to plague public and private data networks. Recent break-ins reported in the press and otherwise occurred at GE, Sprint, and IBM, as well as the computer systems of NETCOM and the San Diego Supercomputer Center. Such incidents involved hackers bypassing firewalls and misappropriating confidential information. Alleviating problems caused by third parties may require significant expenditures of capital and resources by the Company and may cause interruptions, delays, or cessation of service to the Company's customers; such expenditures or interruptions could have a material adverse effect on the Company's business, operating results and financial condition. Moreover, the security

and privacy concerns of existing and potential customers, as well as concerns related to computer viruses, may inhibit the growth of the Internet marketplace generally, and the Company's customer base and revenues in particular. The Company attempts to limit its liability to customers, including liability arising from a failure of the security feature contained in the Company's products, through contractual provisions. However, there can be no assurance that such limitations will be enforceable. The Company currently does not have product liability insurance to protect against these risks and there can be no assurance that such insurance will be available to the Company on commercially reasonable terms or at all.

Services

Support Programs

The Company has made a commitment to provide timely, high quality technical support to meet the diverse needs of its customers and partners and to facilitate the adoption and use of its products. The Company offers several support products:

Netscape HelpDesk Support. The Company offers an annual support program intended for organizations who need to internally support a large-scale deployment of Netscape Navigator software and for authorized VARs and systems integrators providing direct support to their customers. This program offers a full spectrum of support, including access to technical experts, support and training materials, support tools, call histories, maintenance releases and software updates.

Netscape Consultation Support. For individuals and for small groups using Netscape Navigator software, the Company offers support through a toll-free telephone number on a time and materials payment basis. This service provides online technical support and bug fixes or software releases as required. Netscape Consultation Support is particularly economical for self-supporting departments that consolidate questions through a department system administrator.

Netscape Server Licensee Support. The Company offers an annual support program targeted at system administrators who have licensed Netscape servers. The program features are similar to those in Netscape HelpDesk Support but are oriented toward the Netscape server software.

Netscape Advanced Support. The Company offers medium to large-sized organizations and strategic partners 24-hour support, partner specific training and consulting, online access to support information, and early access to new software releases.

Netscape Server Administration Training Course. The Company offers a two-day course intended for Unix system administrators who are implementing an Internet HTTP presence with Netscape software. The topics covered include server site preparation, configuration and installation, HTML authoring, security, CGI scripts, hands-on labs and a discussion of the Company and the role of its products on the Internet.

Consulting

The Company offers consulting services for particularly complex application design, integration and installation. Consulting services are provided at negotiated rates, and typically include on-site support during the installation process by Company engineers.

Training

Netscape offers hands-on training courses and materials to resellers and end users covering installation, configuration and troubleshooting. In addition, courses and materials cover security and encryption, user support, data loading and content creation, HTML user interface design, HTML template scripting and integration with the data base.

Advertising Space

For its most frequently visited Web pages, Netscape has created a program which enables advertisers to display their logo or message on a hyperlinked button with access to their Web site. The Company charges a monthly fee for the advertising spots which varies depending on the specific page location and the number of visits to the page.

Marketing and Distribution

Target Markets

The Company's target markets are the Internet commerce, enterprise and individual PC user markets.

Internet Commerce Market. The Company believes that many major corporations will begin to publish information and to offer products and services for sale on the Internet. Companies are expected to use the Internet to publish corporate product and support information as "electronic brochures." Corporations likely to offer products and services for sale include telecommunications companies, information service providers, mail order and traditional retailers, publishers, and financial service providers.

Enterprise Market. Medium and large-sized organizations, particularly those with geographically dis-bursed employee bases, are expected to increasingly use the Internet in conjunction with private IP networks to facilitate internal communications. Many Fortune 500 companies already maintain extensive private communication networks, which can be enhanced and extended through use of the Internet.

Individual PC Users. While the number of business desktop computer users accessing the Internet is increasing rapidly, the Company believes that only a small fraction of business computer users currently use the Internet. In addition, the popularity of online information services, such as Prodigy, CompuServe and AOL, as well as home shopping services, such as QVC and Home Shopping Network, suggest that the home market for commercial applications on the Internet will be substantial. The accessibility and ease of use of the Company's products are designed to address the demands of this marketplace.

The Company's target markets are illustrated below:

Target Markets	Netscape Products	Distribution Channels
Internet Commerce	Merchant System Publishing System* Community System* IStore*	Systems Integrators VARs Direct Sales
Enterprise	Communications Server Commerce Server Proxy Server News Server*	OEMs Direct Sales Systems Integrators VARs Telesales Internet
Individual PC Users	Navigator LAN Edition Navigator Personal Edition	Retail OEMs Telesales Internet

* Expected to be commercially available by the end of 1995

The market for the Company's software and services has only recently begun to develop, is rapidly evolving and is characterized by an increasing number of market entrants who have introduced or developed products and services for communication and commerce over the Internet and private IP networks. As is typical in the case of a new and rapidly evolving industry, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty. The industry is young and has few proven products. Moreover, critical issues concerning the commercial use of the Internet (including security, reliability, cost, ease of use and access, and quality of service) remain unresolved and may impact the growth of Internet use. While the Company believes that its software products offer significant advantages for commerce and communication over the Internet and private IP networks, there can be no assurance that Internet commerce and communication will become widespread, or that the Company's products for commerce and communication over the Internet and private IP networks will become widely adopted for these purposes.

In particular, the Company's client software will likely be subject to price erosion due to free client software distributed by online service providers, Internet access providers and others. In addition, computer operating systems companies, such as Microsoft and IBM, are now bundling or are planning to bundle client software with their operating systems at little or no additional cost to users, which will also likely cause the price of the Company's client products to decline. Further, market acceptance of the Company's server and integrated applications software products is substantially dependent upon the adoption of the Internet and private IP networks for commerce and communications. The adoption of the Internet for commerce and communications, particularly by those individuals and enterprises which have historically relied upon alternative means of commerce and communications, generally requires the acceptance of a new way of conducting business and exchanging information. In particular, enterprises that have already invested substantial resources in other means of conducting commerce and exchanging information may be particularly reluctant or slow to adopt a new strategy that may make their existing personnel and infrastructure obsolete. In addition, there can be no assurance that individual PC users in business or at home will adopt the Internet for online commerce or communication.

Marketing

The Company uses a variety of marketing programs to stimulate demand for its products and services. These programs are focused on the target markets mentioned above and are designed to leverage the Internet itself as a powerful marketing vehicle. In addition, the Company has developed co-marketing programs with channel partners designed to take advantage of their complementary marketing capabilities. The key elements of the Company's marketing strategy include:

Marketing on the Internet. Netscape Navigator is designed to automatically access the Netscape home page on the Company's Web server each time it starts up. The home page provides frequently updated help for new users, news about the Company, directories to interesting sites on the Internet and a variety of product and technical support information. The Company makes its products available for evaluation and purchase through its home page. Customer information is collected electronically through an automated registration process, creating the basis for ongoing marketing of upgrades, new products, add-on products and merchandise.

Target marketing. The Company focuses direct marketing efforts on new electronic merchants, companies now publishing on the Web and decision makers using the Internet for internal use in medium and large-sized enterprises. The Company addresses these customers through a referral program for Netscape Navigator users, outbound telemarketing, direct response advertising and seminar programs. The goal of these efforts is to identify potential buyers of the Company's products, create awareness of the Company's product offerings and generate leads for follow-on sales.

Marketing to PC users. Client products are marketed widely to PC users in both the business and home PC market segments. Retail distribution through national resellers, reseller agreements with Internet access providers, and bundling arrangements with PC hardware and software OEMs are being used to make the Company's client products rapidly available to a large number of potential customers. In order to stimulate

demand for its products, the Company also advertises in PC industry publications and engages in sales promotions with distribution partners.

Distribution

The Company's objective is to make its software the de facto industry standard in part by rapidly disseminating its products through multiple distribution channels worldwide. The Company has designed its distribution strategy to address the particular requirements of its diverse institutional and individual target customers. The Company's direct distribution efforts consist of a direct sales force and telesales as well as marketing directly via the Netscape home page on the Internet. The Company's products are distributed indirectly through OEMs, systems integrators, VARs and software retailers.

Direct Sales. The Company's direct sales force targets primarily medium to large-sized organizations, including telecommunications companies, retailers, publishers and entertainment companies. The Company believes that these organizations are most likely to become the electronic merchants and information publishers for commerce on the Internet. In addition, these organizations have a substantial installed base of private IP networks and are expected to employ Web servers for internal enterprise applications. In certain instances, the Company's direct sales force works with complementary hardware OEMs, VARs and systems integrators to deliver complete solutions for major customers.

Telesales. The Company's telesales organization, based in Mountain View, California, receives customer orders as well as proactively contacts potential customers.

Internet Sales. The Company offers its products and services electronically via the Internet. Internet sales and distribution is particularly well suited to address the large base of Internet users.

OEMs. The Company has established OEM relationships to leverage its sales efforts. For example, the Company has agreements with Digital, SGI, Sun, Apple, Mitsubishi, Toshiba, NEC, Sony, Novell, MCI, Pacific Bell, Delphi and others to bundle Netscape's server or client software with certain of their product offerings.

VARs and Systems Integrators. VARs and systems integrators customize, configure and install the Company's software products with complementary hardware, software and services. In combining these products and services, these resellers are able to deliver more complete Netscape-based solutions to address specific customer needs. The Company may also help these VARs and systems integrators design customized applications to meet the unique requirements of these customers. Since April 1, 1995, more than 150 VARs have been qualified by the Company to resell its products.

Software Retailers. In June 1995, the Company introduced its Netscape Navigator Personal Edition product for distribution through leading software retailers.

The Company has historically sold its products only through direct sales, the Internet and OEMs. The Company expects to increasingly utilize OEMs and has recently begun utilizing systems integrators, VARs and software retailers (collectively, "Resellers"). The Company expects that any material increase in sales through Resellers as a percentage of total revenues, especially in the percentage of sales through OEMs and VARs, will adversely affect the Company's average selling prices and gross margins due to the lower unit prices that are typically charged when selling through indirect channels. Moreover, there can be no assurance that the Company will be able to attract Resellers that will be able to market the Company's products effectively and will be qualified to provide timely and cost-effective customer support and service or that the Company will be able to manage conflicts among its Resellers. In addition, the Company's agreements with Resellers typically do not restrict Resellers from distributing competing products, and in many cases may be terminated by either party without cause. Further, in some cases the Company has granted exclusive distribution rights which are limited by territory and in duration. Consequently, the Company may be adversely affected should any Reseller fail to adequately penetrate its market segment. The inability to recruit, manage and retain important Resellers, or their inability to penetrate their respective market segments, could materially adversely affect the Company's business, operating results or financial condition.

The Company plans to expand its field sales force and its telesales organization. There can be no assurance that such internal expansion will be successfully completed, that the cost of such expansion will not exceed the revenues generated, or that the Company's sales and marketing organization will be able to successfully compete against the significantly more extensive and well-funded sales and marketing operations of many of the Company's current or potential competitors. The Company's inability to effectively manage its internal expansion could have a material adverse effect on the Company's business, operating results or financial condition.

In addition to expanding its direct sales channels, the Company will continue to distribute its products electronically through the Internet. Distributing the Company's products through the Internet makes the Company's software more susceptible than other software to unauthorized copying and use. The Company has historically allowed and currently intends to continue to allow potential customers to electronically download its client and server software for a free evaluation period. There can be no assurance that, upon expiration of the evaluation period, the Company will be able to collect payment from users that retain a copy of the Company's software. In addition, by distributing its products for free evaluation over the Internet, the Company may have reduced the future demand for its products. If, as a result of changing legal interpretations of liability for unauthorized use of the Company's software or otherwise, users were to become less sensitive to avoiding copyright infringement, the Company's business, operating results and financial condition could be materially adversely affected.

International

International revenues (sales outside of North America) were immaterial in the Inception Period and accounted for approximately 10% and 14% of total revenues for the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively. However, the Company believes that approximately 30% of all Internet servers are located outside the U.S. The Company intends to translate and localize its products to address certain international markets.

The Company believes it is important to have a strong international presence and intends to do business in markets outside the U.S. through a combination of subsidiaries and distributors. The Company intends to employ a mix of channels similar to the U.S. model, through the use of OEMs, systems integrators, VARs and software retailers.

A Japanese subsidiary, Netscape Communications (Japan), Ltd. was established at the end of 1994. The Company has established relationships with computer hardware manufacturers, systems integrators, trading houses and other companies in Japan, including Information Services International - Dentsu, Itochu Techno-Science Corporation, Mitsubishi, NEC, NTT PC Communications, Softbank Corp., Software Japan International Inc., Sony and Toshiba. The Company intends to establish a presence in European markets and other Pacific Rim countries in the second half of 1995.

In particular, the Company intends to establish foreign subsidiaries in Europe by the end of 1995. If the international revenues generated by foreign subsidiaries are not adequate to offset the expense of establishing and maintaining these foreign operations, the Company's business, operating results or financial condition could be materially adversely affected. To date, the Company has only limited experience in developing localized versions of its products and marketing and distributing its products internationally. There can be no assurance that the Company will be able to successfully market, sell and deliver its products in these markets. In addition to the uncertainty as to the Company's ability to expand its international presence, there are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, fluctuations in currency exchange rates, seasonal reductions in business activity during the summer months in Europe and certain other parts of the world and potentially adverse tax consequences, which could adversely impact the success of the Company's international operations. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international operations and, consequently, on the Company's business, operating results and financial condition.

Due to the encryption technology contained in the Company's products, such products are subject to U.S. export controls. There can be no assurance that such export controls, either in their current form or as may be subsequently enacted, will not limit the Company's ability to distribute products outside of the United States or electronically. While Netscape takes precautions against unlawful exportation, the global nature of the Internet makes it virtually impossible to effectively control the distribution of the Company's products. In addition, federal or state legislation or regulation may further limit levels of encryption or authentication technology. Any such export restrictions, new legislation or regulation or unlawful exportation could have a material adverse impact on the Company's business, operating results or financial condition.

Research and Development

The Company's current development efforts are focused on new products, product enhancements and adapting existing products to new operating systems. Netscape's Community System, Publishing System and IStore integrated application products, Netscape News Server and the Netscape Navigator for Windows 95 are all currently being beta tested and are expected to be commercially available by the end of 1995. In addition, the Company is developing authoring tools which are currently scheduled for commercial release in the first half of 1996. There can be no assurance, however, that these products will be made commercially available as expected or otherwise on a timely and cost-effective basis, or that if introduced, that these products will achieve market acceptance.

The Company believes that its software development team represents a significant competitive advantage for the Company. The team includes key members of the engineering teams which developed the original Mosaic Web client at NCSA, and the original Web server software at CERN and NCSA, as well as leading software security specialists. The Company's ability to attract and retain highly qualified employees will be the principal determinant of its success in maintaining technological leadership. Netscape has a policy of using equity-based compensation programs to reward and motivate significant contributors among its employees.

Research and development expenses were $2,032,000, $1,981,000 and $4,134,000 for the Inception Period, the quarter ended March 31, 1995 and the quarter ended June 30, 1995, respectively. To date, all software development costs have been expensed as incurred. The Company believes that significant investments in research and development are required to remain competitive. As a consequence, the Company intends to increase the absolute amount of its research and development expenditures in the future.

Substantially all of the Company's revenues have been derived, and substantially all of the Company's future revenues are expected to be derived, from the license of its software and sale of its associated services. Accordingly, broad acceptance of the Company's software products and services by customers is critical to the Company's future success, as is the Company's ability to design, develop, test and support new software products and enhancements on a timely basis that meet changing customer needs and respond to technological developments and emerging industry standards. There can be no assurance that the Company will be successful in developing and marketing new software products and enhancements that meet changing customer needs and respond to such technological changes or evolving industry standards. The Company's current products are designed around certain standards, including, for example, security standards, and current and future sales of the Company's products will be dependent, in part, on industry acceptance of such standards. Other companies, such as Microsoft and IBM, are proposing alternative standards, the adoption of which could have a material adverse effect on the Company's business, operating results or financial condition. In addition, there can be no assurance that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of new products and enhancements, or that its new products and enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. The Company will be substantially dependent in the near future upon its server and integrated applications software products that are still being developed or have been recently released. In particular, the Company has not yet commercially released the Netscape Publishing System, the Netscape Community System or the Netscape IStore integrated applications software products, the Netscape News Server, Netscape Navigator for Windows 95 or the Netscape authoring tools. Further, because the Company has only recently commenced shipment of its products, there can be no assurance that, despite testing by the Company and by current and potential customers, errors will not be found in the Company's products, or, if

discovered, successfully corrected in a timely manner. If the Company is unable to develop on a timely basis new software products, enhancements to existing products or error corrections, or if such new products or enhancements do not achieve market acceptance, the Company's business, operating results and financial condition will be materially adversely affected.

Competition

The market for Internet-based software and services is new, intensely competitive, rapidly evolving and subject to rapid technological change. The Company expects competition to persist, intensify and increase in the future. Almost all of the Company's current and potential competitors have longer operating histories, greater name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources than the Company. Such competition could materially adversely affect the Company's business, operating results or financial condition. The Company's current and potential competitors can be divided into several groups: Microsoft, browser software vendors, Web server software and service vendors, PC and Unix software vendors and online service providers.

Microsoft Corporation. Microsoft has licensed browser software from Spyglass and has announced its intention to improve and bundle the browser with its Windows 95 operating system. Microsoft's browser will access the Microsoft Network, its announced online service, and will also offer Internet access. While the anticipated penetration of this software into Microsoft's installed base of PC users will increase the size and usefulness of the Internet, it will likely also have a material adverse impact on Netscape's ability to sell client software. In addition, because the Company's client software products will not be able to access Microsoft Network, the Company's client software products may be at a competitive disadvantage versus Microsoft's browser. Further, Microsoft may choose to develop Web server and applications software as a complement to its product line and to support the Microsoft Network, which could materially adversely affect Netscape's ability to sell server software or integrated applications. To the extent that Microsoft's browser gains market acceptance, Microsoft will be better positioned than the Company to sell Web server and applications products. Microsoft has a longer operating history, a much larger installed base and number of employees, and dramatically greater financial, technical and marketing resources, access to distribution channels and name recognition than the Company. Moreover, to complete development of Netscape Navigator for Windows 95, the Company must obtain certain technology from Microsoft. There can be no assurance that Microsoft will make such technology available to the Company on a timely basis, on commercially reasonable terms or at all.

Browser Software Vendors. Several companies are currently offering client-based Web browser products, including Spry, Inc. (a subsidiary of CompuServe), Spyglass, Booklink Technologies, Inc. ("Booklink," a subsidiary of AOL), NetManage Inc., Network Computing Devices, Inc. and Quarterdeck Office Systems, Inc. In addition, the NCSA at the University of Illinois distributes its product, NCSA Mosaic, for free for noncommercial use. Further, Spyglass has an exclusive license for NCSA Mosaic and is actively sublicensing it to other commercial vendors. These sublicensees are expected to offer derivative products that will compete with the Company's Netscape Navigator product line.

Server Software and Service Vendors. Some companies are offering Web server software that they install and operate on behalf of their customers, and other companies are offering services using Web servers. Companies offering Web server software include Open Market, Inc. ("Open Market"), which has a Web server for various Unix platforms, Process Software Corp. and O'Reilly & Associates, Inc., which have Windows NT Web server products, Spyglass, which has announced a Web server for Windows NT and various Unix platforms, and Terisa, which offers a toolkit for adding security functions to the existing NCSA and CERN Web servers. Service companies include Open Market and Internet Media Services, which publish content from third parties on their own Web servers. In the future, software companies which have server products in other product categories may choose to enhance the functionality of existing products or develop new products which are competitive with the Company's Web server and integrated applications products. These companies include Lotus (which IBM recently acquired), which may extend Notes in this manner, and Novell, which may choose to provide add-ons to Netware for Web publishing. In addition, the database vendors Oracle, Sybase and Informix may incorporate Web server functionality into their products. Oracle has recently announced a technology licensing agreement with Spyglass and its intention to introduce Web-based software that enables electronic commerce and communication.

PC and Unix Software Vendors. The Company believes that PC software vendors may become particularly formidable competitors. In addition to Microsoft, IBM has incorporated client software in its OS/2 operating system, and the Company believes that other PC operating system vendors, including Apple, will also eventually incorporate some Web client functionality into their operating systems as standard features. This may also be true of Unix operating systems vendors, such as Sun, HP, IBM, Digital, SCO and SGI. If these companies incorporate Web browser functionality into their software products, they could subsequently offer this functionality at little or no additional cost to customers. Further, in the event that client products incorporated into operating systems by Microsoft or other PC or Unix software vendors gain market acceptance, these organizations will be better positioned than the Company to sell Web server and applications software products.

Online Service Providers. Although the online services provided by companies such as Prodigy, CompuServe and AOL are not Internet-based services, these services currently present an alternative medium to organizations considering Internet-based publishing. In addition, due to the appeal of the Internet to content publishers and end users, these companies are adapting their service offerings to provide Internet access. At least two of these companies compete directly with the Company in the Internet-based software and services market: AOL, which acquired Booklink, and CompuServe, which acquired Spry. The Company's client software products do not offer access to any online services, including Microsoft Network, and are at a competitive disadvantage versus browser products which offer both access to the Internet and to an online service.

Additional competition could come from client/server applications and tools vendors, other database companies, multimedia companies, document management companies, networking software companies, network management companies and educational software companies. Further, the Company's current products are designed around certain standards, including, for example, security standards. Industry acceptance of competing standards could decrease the demand for the Company's products.

Competitive factors in the Internet-based software and services market include core technology, breadth of product features, product quality, marketing and distribution resources, and customer service and support. The Company believes it presently competes favorably with respect to each of these factors. However, the market and competition are still new and rapidly emerging, and there can be no assurance that the Company will be able to compete successfully against current or future competitors, or that this competition will not adversely affect the Company's business, operating results and financial condition.

Government Regulation

The Company is not currently subject to direct regulation by any government agency, other than regulations applicable to businesses generally, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet, covering issues such as user privacy, pricing and characteristics and quality of products and services. For example, the Exon Bill (which was recently approved by the Senate) would prohibit distribution of obscene, lascivious or indecent communications on the Internet. The adoption of any such laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for the Company's products and increase the Company's cost of doing business or otherwise have an adverse effect on the Company's business, operating results or financial condition. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, libel and personal privacy is uncertain.

Proprietary Rights

In December 1994, the Company entered into an agreement with the University of Illinois (the "University") and Spyglass. Under the terms of the agreement, the University and Spyglass agreed not to assert any claim of trademark infringement arising out of the Company's prior use of the word "Mosaic" or other symbols or words used by the Company to market itself or its products. The University and Spyglass further agreed not to assert against the Company any claim of copyright infringement, trade secret misappropriation or related claims based on the Company's use of former University employees in the development of the Company's present and future products. As consideration for these covenants not to assert any such claims, the Company agreed to make certain payments to the University over a two-year period. If the Company does not make these payments within the specified time periods, the University or Spyglass could assert claims of intellectual property infringement against the Company. Such litigation could result in substantial costs and diversion of resources even if ultimately decided in favor of the Company. Further, although the Company believes that it has not infringed the intellectual property rights of the University or Spyglass, any such litigation and the outcome of such litigation could have a material adverse effect on the Company's business, operating results or financial condition.

The Company's success and ability to compete is dependent in part upon its proprietary technology. While the Company relies on trademark, trade secret and copyright law to protect its technology, the Company believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are more essential to establishing and maintaining a technology leadership position. The Company presently has no patents or patent applications pending. There can be no assurance that others will not develop technologies that are similar or superior to the Company's technology. The source code for the Company's proprietary software is protected both as a trade secret and as a copyrighted work. The Company generally enters into confidentiality or license agreements with its employees, consultants and vendors, and generally controls access to and distribution of its software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's products or technology without authorization, or to develop similar technology independently. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries, and the global nature of the Internet makes it virtually impossible to control the ultimate destination of the Company's products. To license its products, the Company primarily relies on "shrink wrap" licenses that are not signed by the end-user and, therefore, may be unenforceable under the laws of certain jurisdictions. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult. There can be no assurance that the steps taken by the Company will prevent misappropriation of its technology or that such agreements will be enforceable. In addition, litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, operating results or financial condition.

Unisys recently announced its intention to require the payment of royalties for the use of compression technology associated with the Graphics Interchange Format ("GIF"). Unisys asserts that this popular file format is based on compression technology patented by Unisys. The Company's products have the ability to decompress files, including files stored in GIF. The Company has received notice of Unisys' intention to enforce or license such patent, and the Company is currently reviewing the matter in order to determine its response to such notice. The Company could incur additional costs and liability should its products be found to be within the scope of the Unisys patent. The assertion of these patent rights by Unisys, if successful, could result in additional costs to the Company or prevent the Company's products from enabling users to view files compressed in GIF. There can be no assurance that the Company's products are not within the scope of the

Unisys patent. From time to time the Company has, in addition to the notice from Unisys, received, and may receive in the future, notice of claims of infringement of other parties' proprietary rights. Although the Company does not believe that its products infringe the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company or that any such assertions or prosecutions will not materially adversely affect the Company's business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company would incur significant costs and diversion of resources with respect to the defense thereof which could have a material adverse effect on the Company's business, financial condition or results of operations. If any claims or actions are asserted against the Company, the Company may seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that under such circumstances, a license would be available on reasonable terms or at all.

The Company also relies on certain technology which it licenses from third parties, including software which is integrated with internally developed software and used in the Company's products to perform key functions. There can be no assurance that these third party technology licenses will continue to be available to the Company on commercially reasonable terms. The loss of or inability to maintain any of these technology licenses could result in delays or reductions in product shipments until equivalent technology could be identified, licensed and integrated, which would adversely affect the Company's business, operating results and financial condition.

Employees

As of June 30, 1995, the Company had a total of 257 employees, 248 of whom were based in the United States. Of the total, 114 were in research and development, 114 were engaged in sales, marketing and customer support and 29 were in administration and finance. The Company's future success depends in significant part upon the continued service of its key technical and senior management personnel and its continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for highly qualified personnel is intense and there can be no assurance that the Company will be able to retain its key managerial and technical employees or that it will be able to attract and retain additional highly qualified technical and managerial personnel in the future. None of the Company's employees is represented by a labor union. The Company has not experienced any work stoppages and considers its relations with its employees to be good.

The rapid execution necessary for the Company to fully exploit the market window for its products and services requires an effective planning and management process. The Company's rapid growth has placed, and is expected to continue to place, a significant strain on the Company's managerial, operational and financial resources. The Company recently hired James L. Barksdale as its new President and Chief Executive Officer in January 1995 and Peter L.S. Currie as its Vice President and Chief Financial Officer in April 1995. In addition, most of the Company's development and engineering staff was only recently hired. To manage its growth, the Company must continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. For example, the Company is currently in the process of building its internal maintenance and support organization. Although the Company believes that it has made adequate allowances for the costs and risks associated with this expansion, there can be no assurance that the Company's systems, procedures or controls will be adequate to support the Company's operations or that Company management will be able to achieve the rapid execution necessary to fully exploit the market window for the Company's products and services. If the Company is unable to manage growth effectively, the Company's business, operating results and financial condition will be materially adversely affected.

Facilities

The Company leases its principal facility, which contains approximately 50,000 square feet of office space, in Mountain View, California. This facility is leased through December 31, 2001. The Company is additionally committed to leasing an adjacent building of approximately 50,000 square feet for future expansion. The lease requires the Company to occupy and begin rental payments on the second building no later than September 1, 1995. The lease on this building also expires on December 31, 2001. In addition, the Company occupies a building of approximately 28,000 square feet of space adjacent to its existing facilities pursuant to a lease which expires in September 1995. Further, the Company has signed a letter of intent for an additional 160,000 square feet of office space adjacent to its existing facilities. The Company believes that its existing facilities will be adequate until the end of the year and that sufficient additional space will be available as needed thereafter.

The Company also leases approximately 11,000 square feet of office space in a building in Mountain View, California, which was its principal business location until January 6, 1995. This space is leased through May 16, 1996. The Company has sublet this space to a subtenant which will rent that space through the term of the Company's lease. The Company also has short-term operating leases for sales offices throughout the United States and in Tokyo and Paris.

The Company maintains secure Web servers which contain confidential information of the Company and its customers. The Company's operations are dependent in part upon its ability to protect its internal network infrastructure against damage from physical break-ins, natural disasters, operational disruptions and other events. Physical break-ins could result in the theft or loss of confidential or critical business information of the Company or its customers. Any such break-ins or damage or failure that causes interruptions in the Company's operations could materially adversely affect the Company's business, operating results or financial condition.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of the Company, and their ages and positions as of June 30, 1995, are as follows:

Name	Age	Position(s)
James H. Clark	50	Chairman of the Board
James L. Barksdale	52	President, Chief Executive Officer and Director
Marc L. Andreessen	24	Vice President, Technology and Director
Peter L.S. Currie	38	Vice President and Chief Financial Officer
Conway Rulon-Miller	44	Vice President, Sales and Field Operations
Michael J. Homer	37	Vice President, Marketing
Roberta R. Katz	47	Vice President, General Counsel and Secretary
Richard M. Schell	45	Vice President, Engineering
James C.J. Sha	45	Vice President and General Manager, Integrated Applications
Kandis Malefyt	41	Vice President, Human Resources
L. John Doerr(1)	44	Director
John E. Warnock(1)	54	Director

(1) Member of the Audit and Compensation Committees

Dr. Clark co-founded the Company in April 1994 and serves as its Chairman of the Board. From inception of the Company to December 1994, Dr. Clark served as the President and Chief Executive Officer of the Company. From 1981 to 1994, Dr. Clark was Chairman of the Board of Directors of Silicon Graphics, Inc. ("SGI"), a computer systems company he founded in 1981. Dr. Clark also served as Chief Technical Officer of SGI from 1981 to 1987. Prior to founding SGI, Dr. Clark was an associate professor at Stanford University. Dr. Clark holds a Ph.D. from the University of Utah and an M.S. from Louisiana State University.

Mr. Barksdale joined the Company in January 1995 as President and Chief Executive Officer. He has served as a director of the Company since October 1994. From 1992 to 1994, Mr. Barksdale served as President and Chief Operating Officer, and, as of September 1994, Chief Executive Officer of AT&T Wireless Services (formerly, McCaw Cellular Communications, Inc. (collectively, "McCaw")). From 1983 to 1991, Mr. Barksdale served as Executive Vice President and Chief Operating Officer of Federal Express Corporation ("Federal Express"). From 1979 to 1983, Mr. Barksdale served as Chief Information Officer of Federal Express. Mr. Barksdale also held various management positions, including Chief Information Officer, with Cook Industries Inc., during the mid-1970s and was employed by International Business Machines Corporation ("IBM") from 1965 to 1972. He holds a B.A. from the University of Mississippi. Mr. Barksdale serves as a director of 3Com Corporation and The Promus Companies, Incorporated.

Mr. Andreessen co-founded the Company in April 1994. He currently serves as Vice President, Technology and has been a director of the Company since September 1994. He received a B.S. from the University of Illinois in 1994, where he co-authored the original NCSA Mosaic Web browser.

Mr. Currie joined the Company as Vice President and Chief Financial Officer in April 1995. From April 1989 to January 1995, Mr. Currie held various management positions at McCaw, including Executive Vice President and Chief Financial Officer, and as of February 1993, Executive Vice President of Corporate Development. From 1982 to 1989, he held various positions at Morgan Stanley & Co. Incorporated. Mr. Currie holds an M.B.A. from Stanford University and a B.A. from Williams College. Mr. Currie serves as a director of LIN Television Corporation.

Mr. Rulon-Miller joined the Company in October 1994 as Vice President, Sales and Field Operations. From December 1992 to October 1994, Mr. Rulon-Miller was President and Chief Executive Officer of Software Alliance Corp., a subsidiary of Teknekron Communications Systems Inc. From 1986 to 1992, he

served as Vice President of North American Operations of NeXT Computer, Inc. Mr. Rulon-Miller has previously held management positions at Tandem Computers, Inc., American Express Company and IBM. Mr. Rulon-Miller holds a B.A. from Princeton University.

Mr. Homer joined the Company in October 1994 as Vice President, Marketing. From August 1993 to October 1994, Mr. Homer served as Vice President, Engineering at EO Corporation and from July 1991 to July 1993, Mr. Homer was Vice President, Marketing at GO Corporation. He had previously been Director of Product Marketing at Apple Computer, Inc., where he held various technical and marketing positions from 1982 through 1991. Mr. Homer holds a B.S. from the University of California, Berkeley.

Ms. Katz joined the Company in May 1995 as Vice President, General Counsel and Secretary. From March 1993 until joining the Company, Ms. Katz served as Senior Vice President and General Counsel of McCaw. In addition, from March 1992 until joining the Company, Ms. Katz served as Senior Vice President and General Counsel of LIN Broadcasting Corporation, a subsidiary of McCaw. Prior to March 1992, Ms. Katz was in private legal practice, most recently as a partner in the law firm of Heller, Ehrman, White & McAuliffe. Ms. Katz is a Fellow of the Discovery Institute and serves as a director of The Washington Technology Center. Ms. Katz holds a J.D. from the University of Washington School of Law, a Ph.D. from Columbia University and a B.A. from Stanford University.

Dr. Schell joined the Company in October 1994 as Vice President, Engineering. From January 1993 to October 1994, Dr. Schell was employed by Symantec Corporation, most recently as Vice President/General Manager of the Central Point Division (formerly Central Point Software, Inc.). From 1989 to 1992, he served as Vice President, Languages and dBase at Borland International. Prior to that time, Dr. Schell held various management positions at Sun Microsystems, Inc. ("Sun") and Intel Corporation. Dr. Schell holds a Ph.D., an M.S. and a B.A. from the University of Illinois.

Mr. Sha joined the Company in August 1994 as Vice President and General Manager, Integrated Applications. From 1990 to 1994, Mr. Sha served as Vice President, Unix Division at Oracle Corporation. From 1986 to 1990, he served as Vice President/General Manager, Advanced Systems Division at Wyse Technology, Inc. Mr. Sha holds an M.S.E.E. from the University of California, Berkeley, an M.B.A. from Santa Clara University and a B.S.E.E. from National Taiwan University.

Ms. Malefyt joined the Company in December 1994 as Vice President, Human Resources. From 1988 to 1994, Ms. Malefyt served as a Director, Human Resources at Silicon Graphics, Inc. Prior to that time, she served as Vice President, Human Resources at ISI. Ms. Malefyt holds an M.S. from Antioch University and a B.A. from Harding University.

Mr. Doerr has been a director of the Company since September 1994. Mr. Doerr has been a general partner of Kleiner Perkins Caufield & Byers, a venture capital firm, since 1980. Prior to joining Kleiner Perkins Caufield & Byers, Mr. Doerr was employed by Intel Corporation for five years. He is a director of Intuit Inc., Macromedia, Inc., Platinum Software, Inc., Shiva Corporation and Sun, as well as several private companies. He holds an M.B.A. from the Harvard Business School and an M.E.E. and a B.S. from Rice University.

Dr. Warnock has been a director of the Company since April 1995. Dr. Warnock is a founder of Adobe Systems Incorporated ("Adobe"), and has been its Chairman of the Board since 1989. He has served as Adobe's President, Chief Executive Officer and a director since December 1982. Prior to founding Adobe, Dr. Warnock was principal scientist of the Imaging Sciences Laboratory at Xerox Corporation's Palo Alto Research Center. He is a director of Adobe, Evans & Sutherland Computer Corporation, Red Brick Systems and the Tech Museum of Innovation. Dr. Warnock holds a Ph.D., an M.S. and a B.S. from the University of Utah.

The Company currently has authorized five directors. In June 1995, the Board of Directors approved, subject to stockholder approval, an amendment to the Company's Amended and Restated Certificate of Incorporation to provide for a classified Board of Directors effective upon the closing of this offering. In accordance with the terms of such amendment, the terms of office of the Board of Directors will be divided into three classes: Class I will expire at the annual meeting of stockholders to be held in 1996; Class II will expire at the annual meeting of stockholders to be held in 1997; and Class III will expire at the annual meeting of stockholders to be held in 1998. At each annual meeting of stockholders beginning with the 1996 annual meeting, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election and until their successors have been

duly elected and qualified. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of an equal number of directors.

In connection with the Series B Preferred Stock financing, Mr. Doerr was elected to the Board of Directors pursuant to the Company's Amended and Restated Certificate of Incorporation. In connection with the Series C Preferred Stock financing, Dr. Warnock was elected to the Board of Directors pursuant to the Company's Amended and Restated Certificate of Incorporation. These provisions will terminate upon the closing of this offering.

Each officer serves at the discretion of the Board of Directors. There are no family relationships among any of the directors or officers of the Company.

Director Compensation

Effective upon the closing of this offering, the Company's non-employee directors will be paid an annual retainer of $10,000 and a fee of $2,500 for each meeting attended of the Board of Directors or of a committee of the Board. In addition, in January 1995, in exchange for his services as a director, James L. Barksdale was granted an option to purchase 200,000 shares of the Company's Common Stock at an exercise price of $0.1125 per share under the Company's 1994 Stock Option Plan. The Company has recently established a director stock option plan, which provides for automatic grants to non-employee directors commencing upon the consummation of this offering. See "Stock Plans — 1994 Stock Option Plan" and "— 1995 Director Option Plan."

Compensation Committee Interlocks and Insider Participation

The Company's Compensation Committee was formed in June 1995 to review and approve the compensation and benefits for the Company's executive officers, administer the Company's stock purchase and stock option plans and make recommendations to the Board of Directors regarding such matters. The committee is currently composed of Mr. Doerr and Dr. Warnock. No interlocking relationship exists between the Company's Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

Employment Agreements

The Company has an employment agreement with James L. Barksdale, the Company's President and Chief Executive Officer, which is terminable at will by either the Company or Mr. Barksdale. In connection with such agreement, Mr. Barksdale was granted an option to purchase 4,000,000 shares of the Company's Common Stock at an exercise price of $0.1125 per share. The options were all immediately exercisable, with 2,000,000 shares vested immediately upon grant and an additional 40,000 shares vesting per month over 50 months. The Company retains the right to repurchase any unvested shares at $0.1125 upon the cessation of Mr. Barksdale's service for any reason. Upon a change in control of the Company, the Company or its successor entity shall be obligated to employ Mr. Barksdale until all shares subject to his option have vested in full.

Limitation of Liability and Indemnification Matters

The Company's Amended and Restated Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that a corporation's certificate of incorporation may contain a provision eliminating or limiting the personal liability of a director for monetary damages for breach of their fiduciary duties as directors, except for liability (i) for any breach of their duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

The Company's Amended and Restated Bylaws provide that the Company shall indemnify its directors and officers and may indemnify its employees and agents to the fullest extent permitted by law. The Company believes that indemnification under its Amended and Restated Bylaws covers at least negligence and gross negligence on the part of indemnified parties.

The Company intends to enter into agreements to indemnify its directors and officers, in addition to the indemnification provided for in the Company's Amended and Restated Bylaws. These agreements, among other things, indemnify the Company's directors and officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of the Company, arising out of such person's services as a director or officer of the Company, any subsidiary of the Company or any other company or enterprise to which the person provides services at the request of the Company. The Company believes that these provisions and agreements are necessary to attract and retain qualified directors and officers.

At present, there is no pending litigation or proceeding involving any director, officer, employee or agent of the Company where indemnification will be required or permitted. The Company is not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

Executive Compensation

The following table sets forth information concerning the compensation paid by the Company during the period from the Company's inception (April 1994) to December 31, 1994 to the Company's Chief Executive Officer and each of the Company's four other most highly compensated executive officers (collectively, the "Named Officers"):

Summary Compensation Table

Name and Principal Position	Annual Compensation Salary($)	Annual Compensation Bonus($)	Long-Term Compensation Securities Underlying Options	All Other Compensation
James H. Clark(1) Chairman of the Board	$ 0	$0	—	$0
James C.J. Sha(2) Vice President and General Manager, Integrated Applications	$69,230	$0	—	$0
Marc L. Andreessen(3) Vice President, Technology	$60,000	$0	280,000	$0
Conway Rulon-Miller(4) Vice President, Sales and Field Operations	$53,850	$0	—	$0
Richard M. Schell(5) Vice President, Engineering	$49,615	$0	400,000	$0

(1) Mr. Clark served as the President and Chief Executive Officer of the Company from its inception in April 1994 until December 1994.

(2) Mr. Sha joined the Company in August 1994; his annualized base salary for 1994 was $200,000.

(3) Mr. Andreessen joined the Company in April 1994; his annualized base salary for 1994 was $80,000.

(4) Mr. Rulon-Miller joined the Company in October 1994; his annualized base salary for 1994 was $225,000.

(5) Mr. Schell joined the Company in October 1994; his annualized base salary for 1994 was $215,000.

Option Grants During 1994

The following table sets forth for each of the Named Officers certain information concerning stock options granted during the period from inception (April 1994) to December 31, 1994:

Name	Individual Grants: Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in 1994(2)	Exercise Price Per Share(3)	Expiration Date(4)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(5): 5%($)	10%($)
James H. Clark	—	—	—	—	—	—
James C.J. Sha	—	—	—	—	—	—
Marc L. Andreessen	280,000	8.6%	$0.0375	07/14/04	$ 6,603	$16,734
Conway Rulon-Miller	—	—	—	—	—	—
Richard M. Schell	400,000	12.3%	$0.1125	09/14/04	$28,300	$71,718

(1) These options are incentive stock options granted pursuant to the 1994 Stock Option Plan and have ten year terms. The options are immediately exercisable; however, the shares purchasable under such options are subject to repurchase by the Company at the original exercise price paid per share upon the optionee's cessation of service prior to the vesting of such shares. In this context, "vesting" means that the shares subject to options are no longer subject to repurchase by the Company. Twenty percent of the options vest upon completion of 10 months of service with the Company, and the remaining shares vest at the rate of two percent over the next 40 months of service.

(2) In 1994, the Company granted options to purchase an aggregate of 3,261,200 shares.

(3) In determining the fair market value of the Company's Common Stock, the Board of Directors considered various factors, including the Company's financial condition and business prospects, its operating results, the absence of a market for its Common Stock and the risks normally associated with high technology companies. The exercise price may be paid in cash, check, promissory note, shares of the Company's Common Stock, through a cashless exercise procedure involving same-day sale of the purchased shares or any combination of such methods.

(4) Options may terminate before their expiration dates if the optionee's status as an employee or consultant is terminated or upon the optionee's death or disability.

(5) The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the Company's future Common Stock prices.

Aggregate Option Exercises in 1994 and Year-End Option Values

The following table sets forth for each of the Named Officers certain information concerning options exercised during the period from inception (April 1994) to December 31, 1994 and the number of shares subject to both exercisable and unexercisable stock options as of December 31, 1994. Also reported are values for "in-the-money" options that represent the positive spread between the respective exercise prices of outstanding options and the fair market value of the Company's Common Stock as of December 31, 1994.

Name	Number of Shares Acquired on Exercise	Value Realized (Market Price at Exercise Less Exercise Price)	Number of Securities Underlying Unexercised Options at 12/31/94: Exercisable	Unexercisable	Value of Unexercised in-the-Money Options at 12/31/94 (1): Exercisable	Unexercisable
James H. Clark	—	—	—	—	—	—
James C.J. Sha	—	—	—	—	—	—
Marc L. Andreessen	—	—	280,000	0	$21,000	$ 0
Conway Rulon-Miller	—	—	—	—	—	—
Richard M. Schell	—	—	400,000	0	$ 0	$ 0

(1) Calculated by determining the difference between the fair market value of the securities underlying the option at December 31, 1994 ($0.1125 per share as determined by the Board of Directors) and the exercise price of the Named Officer's option. In determining the fair market value of the Company's Common Stock, the Board of Directors considered various factors, including the Company's financial condition and business prospects, its operating results, the absence of a market for its Common Stock and the risks normally associated with high technology companies.

Stock Plans

1994 Stock Option Plan

The Company's 1994 Stock Option Plan (the "1994 Plan") provides for the grant to employees of incentive stock options and the grant of nonstatutory stock options to employees and consultants of the Company. As of June 30, 1995, an aggregate of 9,036,672 shares of Common Stock has been reserved for issuance under the 1994 Plan, and options to purchase an aggregate of 855,000 shares of Common Stock were outstanding under the 1994 Plan. The Board of Directors has determined that no further options will be granted under the 1994 Plan after this offering.

1995 Stock Plan

The Company's 1995 Stock Plan (the "1995 Plan") was approved by the Board of Directors in June 1995, subject to stockholder approval. The 1995 Plan provides for the granting to employees (including officers and employee directors) of incentive stock options and for the granting to employees (including officers and employee directors) and consultants of nonstatutory stock options, stock purchase rights ("SPRs"), and long-term performance awards. A total of 4,500,000 shares of Common Stock has been reserved for issuance under the 1995 Plan, which number shall be increased on the first day of each new fiscal year of the Company, beginning in 1997, by a number of shares equal to four percent of the Company's outstanding Common Stock as of the last business day of the immediate preceding fiscal year. However, the maximum number of shares of Common Stock available for issuance pursuant to incentive stock option grants under the 1995 Plan is 4,500,000. As of June 30, 1995, there were no options outstanding under the 1995 Plan.

The 1995 Plan may be administered by the Board of Directors or a committee designated by the Board (the "Administrator"). Options, SPRs, and long-term performance awards granted under the 1995 Plan are not generally transferable by the optionee except by will or by the laws of descent and distribution, and are exercisable during the lifetime of the optionee only by such optionee. Options granted under the 1995 Plan must be exercised within three months of the end of optionee's status as an employee or consultant of the Company, or within twelve months after such optionee's termination by death or disability, but in no event later than the expiration of the option term. The exercise price of all incentive and nonstatutory stock options granted under the 1995 Plan shall be determined by the Adminstrator. With respect to any participant who owns stock possessing more than ten percent of the voting power of all classes of the Company's outstanding capital stock (a "10% Stockholder"), the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date. The exercise price of incentive stock options for all other employees shall be no less than 100% of the fair market value per share on the date of the grant. The maximum term of an option granted under the 1995 Plan may not exceed ten years from the date of grant (five years in the case of an incentive stock option granted to a 10% Stockholder). In the case of SPRs, unless the Administrator determines otherwise, the Company shall have a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason (including death or disability). Such repurchase option lapses at a rate determined by the Administrator. The purchase price for shares repurchased by the Company shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. Long-term performance awards are cash or stock bonus awards, and may be granted alone or in conjunction with other awards under the 1995 Plan.

1995 Employee Stock Purchase Plan

The Company's 1995 Employee Stock Purchase Plan (the "1995 Purchase Plan") was adopted by the Board of Directors in June 1995, subject to stockholder approval. The Company has reserved a total of 1,000,000 shares of Common Stock for issuance under the 1995 Purchase Plan. The 1995 Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended, permits eligible employees of the Company to purchase Common Stock through payroll deductions of up to ten percent of their compensation (including commissions, overtime, shift premium, and bonuses), up to a maximum of $21,250 for all purchase periods ending within any calendar year. The price of Common Stock purchased under the 1995 Purchase Plan will be 85% of the lower of the fair market value of the Common Stock on the first or last day of each six month purchase period. Employees may end their participation in the

1995 Purchase Plan at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with the Company. Rights granted under the 1995 Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the plan. The 1995 Purchase Plan will be implemented by an initial offering period of approximately 23 months commencing on the first trading day on or after the effective date of this offering and ending on the last trading day in the period ending July 31, 1997. Subsequent offering periods will last 24 months and will commence on the first trading day on or after February 1 and August 1 of each year during which the 1995 Purchase Plan is in effect, and will terminate on the last trading day in the periods ending 24 months later. Each 24-month offering period will consist of four purchase periods of approximately six months duration. The 1995 Purchase Plan will be administered by the Board of Directors or by a committee appointed by the Board. Employees are eligible to participate if they are customarily employed by the Company or any designated subsidiary for at least 20 hours per week and for more than five months in any calendar year.

1995 Director Option Plan

Non-employee directors are entitled to participate in the 1995 Director Option Plan (the "Director Plan"). The Director Plan was adopted by the Board of Directors in June 1995, subject to stockholder approval but shall not become effective until the effective date of this offering. A total of 100,000 shares of Common Stock has been reserved for issuance under the Director Plan. As of June 30, 1995, there were no options outstanding under the Director Plan.

The Director Plan provides for an automatic grant of an option to purchase 8,000 shares of Common Stock (the "First Option") to each non-employee director on the date on which the Director Plan becomes effective or, if later, on the date on which the person first becomes a non-employee director. After the First Option is granted to the non-employee director, he or she shall automatically be granted an option to purchase 2,000 shares (a "Subsequent Option") on January 1 of each subsequent year provided he or she is then a non-employee director and, provided further, that on such date he or she has served on the Board for at least six months. First Options and each Subsequent Option shall have a term of ten years. Twenty percent of the shares subject to the First Option shall vest on the date ten months after the grant of the option, and an additional two percent of the shares subject to the First Option shall become exercisable each month thereafter, provided that the optionee continues to serve as a director on such dates. One twenty-fourth of the shares subject to a Subsequent Option shall become exercisable at the end of each month after the option grant, provided that the optionee continues to serve as a director on such dates. The exercise prices of the First Option and each Subsequent Option shall be 100% of the fair market value per share of the Company's Common Stock on the date of the grant of the option.

CERTAIN TRANSACTIONS

Since the inception of the Company in April 1994, the Company has issued, in private placement transactions, shares of Preferred Stock as follows: 4,151,000 shares of Series A Preferred Stock at $0.75 per share; 2,857,222 shares of Series B Preferred Stock at $2.25 per share and 2,000,000 shares of Series C Preferred Stock at $9.00 per share. Each share of Preferred Stock will convert on a two-for-one basis into an aggregate of 18,016,444 shares of Common Stock upon the closing of this offering. The holders of such converted shares of Common Stock are entitled to certain registration rights with respect to the Common Stock issued or issuable upon conversion thereof. See "Description of Capital Stock — Registration Rights." The following table sets forth the series of Preferred Stock and number of shares purchased by the Company's directors, executive officers, five percent stockholders and their respective affiliates:

Investor	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock
James H. Clark	4,000,000	500,000	—
James C.J. Sha	25,000	75,000	—
Entities affiliated with Kleiner Perkins Caufield & Byers(1)	—	2,200,000	—
Adobe Systems Incorporated(2)	—	—	444,445

(1) Includes 1,881,000 shares, 209,000 shares and 110,000 shares held by Kleiner Perkins Caufield & Byers VII, KPCB VII Founders Fund and KPCB Information Sciences Zaibatsu Fund II, respectively. L. John Doerr is a general partner of KPCB VII Associates, which is a general partner of Kleiner Perkins Caufield & Byers VII, KPCB VII Founders Fund and KPCB Information Sciences Zaibatsu Fund II. Mr. Doerr serves on the Board of Directors as the representative of the holders of Series B Preferred Stock pursuant to the Company's Amended and Restated Certificate of Incorporation. Mr. Doerr disclaims beneficial ownership of such shares except for his proportional interest therein.

(2) All shares are held by Adobe. Dr. Warnock is a founder of Adobe and currently serves as its President and Chief Executive Officer and as a director. Dr. Warnock may therefore be deemed to share voting and investment power with respect to such shares. Dr. Warnock also serves on the Board of Directors as the representative of the holders of Series C Preferred Stock pursuant to the Company's Amended and Restated Certificate of Incorporation.

In May 1994, James H. Clark and Marc L. Andreessen, executive officers and directors of the Company, each purchased 720,000 shares of Common Stock at $0.0005 per share (the then fair market value of the Common Stock as determined by the Company's Board of Directors). The Company issued a total of 3,350,000 shares of Common Stock in this financing. In August 1994, James C.J. Sha, an executive officer of the Company, purchased 400,000 shares of Common Stock at $0.0375 per share (the then fair market value of the Common Stock as determined by the Company's Board of Directors). The Company has also agreed to make a loan in the amount of $200,000 to Dr. Schell to assist in his relocation to the San Francisco Bay Area and purchase of a home. Such loan may be forgiven by the Company when Dr. Schell's options have vested in full.

In January 1995, the Company entered into an employment agreement with James L. Barksdale. See "Management — Employment Agreements." The Company intends to enter into indemnification agreements with each of its executive officers and directors. See "Management — Limitation of Liability and Indemnification Matters."

The Company believes that all of the transactions set forth above were made on terms no less favorable to the Company then could have been obtained from unaffiliated third parties. All future transactions, including loans, between the Company and its officers, directors and principal stockholders and their affiliates will be approved by a majority of the Board of Directors, including a majority of the independent and disinterested directors of the Board of Directors, and will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of June 30, 1995 and as adjusted to reflect the sale of Common Stock offered hereby for (i) each person or entity who is known by the Company to beneficially own one percent or more of the outstanding Common Stock of the Company, (ii) each of the Company's directors, (iii) each of the Named Officers, and (iv) all directors and executive officers of the Company as a group:

Name or Group of Beneficial Owners	Number of Shares Beneficially Owned(1)	Percentage of Shares Beneficially Owned(1)	
		Before Offering	After Offering
James H. Clark(2) c/o Netscape Communications Corporation 501 East Middlefield Road Mountain View, CA 94043	9,720,000	29.3%	26.5%
James L. Barksdale(3) c/o Netscape Communications Corporation 501 East Middlefield Road Mountain View, CA 94043	4,200,000	12.7	11.5
L. John Doerr(4) Kleiner Perkins Caufield & Byers 4 Embarcadero Center, Suite 3520 San Francisco, CA 94111	4,400,000	13.3	12.0
Marc L. Andreessen(5)	1,000,000	3.0	2.7
John E. Warnock(6)	888,890	2.7	2.4
Adobe Systems Incorporated(6)	888,890	2.7	2.4
TCI Netscape Holdings, Inc.	888,890	2.7	2.4
The Times Mirror Company	888,890	2.7	2.4
James C.J. Sha(7)	600,000	1.8	1.6
Knight-Ridder Investment Company	444,446	1.3	1.2
The Hearst Corporation	444,446	1.3	1.2
IDG Holdings, Inc.	444,438	1.3	1.2
Conway Rulon-Miller(8)	400,000	1.2	1.1
Richard M. Schell(9)	400,000	1.2	1.1
All directors and executive officers as a group (12 persons)(10)	22,808,890	68.8	62.2

(1) Assumes no exercise of the Underwriters' over-allotment option. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable or exercisable within 60 days of June 30, 1995 are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of each other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name.

(2) Includes 532,800 shares subject to a repurchase right of the Company upon cessation of his service to the Company. Such repurchase right lapses at a rate of two percent per month.

(3) Includes 2,000,000 shares subject to a repurchase right of the Company upon cessation of his service to the Company. Such repurchase right lapses at a rate of two percent per month.

(4) Includes 3,762,000 shares, 418,000 shares and 220,000 shares held by Kleiner Perkins Caufield & Byers VII, KPCB VII Founders Fund and KPCB Information Sciences Zaibatsu Fund II, respectively. Mr. Doerr is a general partner of KPCB VII Associates, which is a general partner of Kleiner Perkins Caufield & Byers VII, KPCB VII Founders Fund and KPCB Information Sciences Zaibatsu Fund II. Mr. Doerr disclaims beneficial ownership of such shares except for his proportional interest therein.

(5) Includes 751,200 shares subject to a repurchase right of the Company upon cessation of his service to the Company. Such repurchase rights lapse at a rate of two percent per month.

(6) All such shares are held by Adobe. Dr. Warnock is a founder of Adobe and currently serves as its President and Chief Executive Officer and as a director. Dr. Warnock may therefore be deemed to share voting and investment power with respect to such shares.

(7) Includes 320,000 shares subject to a repurchase right of the Company upon cessation of his service to the Company. Such repurchase right lapses at a rate of two percent per month.

(8) All such shares are subject to repurchase rights of the Company upon cessation of his service to the Company. Such repurchase rights lapse as to 20% of the shares 10 months following their respective grant dates and at a rate of two percent per month thereafter.

(9) All such shares are subject to a repurchase right of the Company upon cessation of his service to the Company. Such repurchase rights lapse as to 20% of the shares on August 12, 1995 and at a rate of two percent per month thereafter.

(10) Includes (i) 100,000 shares issuable upon currently exercisable options, (ii) an aggregage of 5,508,000 shares subject to certain repurchase rights of the Company upon cessation of the individual's service to the Company, which repurchase rights generally lapse at a rate of two percent per month, and (iii) 5,289,990 shares owned by entities associated with Messrs. Doerr and Warnock.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 100,000,000 shares of Common Stock, $0.0001 par value, and 5,000,000 shares of undesignated Preferred Stock, $0.0001 par value.

The following summary of certain provisions of the Common Stock and Preferred Stock does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the Company's Amended and Restated Certificate of Incorporation which is included as an exhibit to the Registration Statement of which this Prospectus is a part and by the provisions of applicable law.

Common Stock

As of June 30, 1995, there were 33,161,444 shares of Common Stock outstanding that were held of record by approximately 212 stockholders. There will be 36,661,444 shares of Common Stock outstanding (assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options) after giving effect to the sale of Common Stock offered to the public hereby.

The holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Subject to preferences that may be applicable to any outstanding shares of Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available for the payment of dividends. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities and liquidation preferences of any outstanding shares of Preferred Stock. Holders of Common Stock have no preemptive rights or rights to convert their Common Stock into any other securities. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and non-assessable, and the shares of Common Stock to be issued upon completion of this offering will be fully paid and non-assessable.

Preferred Stock

Pursuant to the Company's Amended and Restated Certificate of Incorporation, the Board of Directors has the authority, without further action by the stockholders, to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the Common Stock. The Board of Directors, without stockholder approval, can issue Preferred Stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of Common Stock. Preferred Stock could thus be issued quickly with terms calculated to delay or prevent a change in control of the Company or make removal of management more difficult. Additionally, the issuance of Preferred Stock may have the effect of decreasing the market price of the Common Stock, and may adversely affect the voting and other rights of the holders of Common Stock. At present, there are no shares of Preferred Stock outstanding and the Company has no plans to issue any of the Preferred Stock.

Antitakeover Effects of Provisions of the Certificate of Incorporation, Bylaws and Delaware Law

Certificate of Incorporation and Bylaws

Upon the closing of this offering, the Company's Amended and Restated Certificate of Incorporation will provide that the Company's Board of Directors be classified into three classes of directors. See "Management — Executive Officers and Directors." The Amended and Restated Certificate of Incorporation also provides that all stockholder action must be effected at a duly called meeting of stockholders and not by a consent in writing. In addition, the Company's Amended and Restated Bylaws do not permit stockholders of the Company to call a special meeting of stockholders; only the Company's Chief Executive Officer or a majority of the members of the Company's Board of Directors may call a special meeting of stockholders.

These provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. Such provisions also may have the effect of preventing changes in the management of the Company. See "Risk Factors — Effect of Certain Charter Provisions; Antitakeover Effects of Certificate of Incorporation, Bylaws and Delaware Law."

Delaware Takeover Statute

The Company is subject to Section 203 of the Delaware General Corporation Law ("Section 203") which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder, unless: (i) prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (x) by persons who are directors and also officers and (y) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66⅔% of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines business combination to include: (i) any merger or consolidation involving the corporation and the interested stockholder; (ii) any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation; (iii) subject to certain exceptions, any transaction which results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; (iv) any transaction involving the corporation which has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or (v) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

Registration Rights

Pursuant to an agreement between the Company and the holders (the "Holders") of approximately 18,016,444 shares of Common Stock (the "Registrable Securities"), the Holders are entitled to certain rights with respect to the registration of such shares under the Securities Act. If the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of other security Holders exercising registration rights, such Holders are entitled to notice of such registration and are entitled to include shares of such Common Stock therein. Additionally, Holders of the Registrable Securities are also entitled to certain demand registration rights pursuant to which they may require the Company to file a registration statement under the Securities Act at the Company's expense with respect to their shares of Common Stock, and the Company is required to use its best efforts to effect such registration. Further, the Holders of such Registrable Securities may require the Company to file additional registration statements on Form S-3 at the Company's expense. All of these registration rights are subject to certain conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in such registration and the right of the Company not to effect a requested registration within nine months following an offering of the Company's securities, including the offering made hereby.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for the Common Stock of the Company. Future sales of substantial amounts of Common Stock in the public market could adversely affect market prices prevailing from time to time. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of certain contractual and legal restrictions on resale (as described below), sales of substantial amounts of Common Stock of the Company in the public market after the restrictions lapse could adversely affect the prevailing market price and the ability of the Company to raise equity capital in the future.

Upon completion of this offering, the Company will have outstanding an aggregate of 36,661,444 shares of Common Stock, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options. Of these shares, the 3,500,000 shares sold in this offering will be freely tradeable without restriction or further registration under the Securities Act, unless such shares are purchased by "affiliates" of the Company as that term is defined in Rule 144 under the Securities Act (the "Affiliates"). The remaining 33,161,444 shares of Common Stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act ("Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 promulgated under the Securities Act, which rules are summarized below. As a result of the contractual restrictions described below and the provisions of Rules 144, 144(k) and 701, additional shares will be available for sale in the public market as follows: (i) no shares will be eligible for immediate sale on the date of this Prospectus, (ii) 11,436,000 shares will be eligible for sale upon expiration of the lock-up agreements 180 days after the date of this Prospectus and (iii) 21,725,444 shares will be eligible for sale upon expiration of their respective two-year holding periods.

Upon completion of this offering, the holders of 18,016,444 shares of Common Stock, or their transferees, will be entitled to certain rights with respect to the registration of such shares under the Securities Act. See "Description of Capital Stock — Registration Rights." Registration of such shares under the Securities Act would result in such shares becoming freely tradeable without restriction under the Securities Act (except for shares purchased by Affiliates) immediately upon the effectiveness of such registration.

All officers, directors, stockholders and option holders of the Company have agreed not to sell, make any short sale of, grant any option for the purchase of, or otherwise transfer or dispose of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock for a period of 180 days after the date of this Prospectus, without the prior written consent of Morgan Stanley & Co. Incorporated. Morgan Stanley & Co. Incorporated currently has no plans to release any portion of the securities subject to lock-up agreements. When determining whether or not to release shares from the lock-up agreements, Morgan Stanley & Co. Incorporated will consider, among other factors, the stockholder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least two years (including the holding period of any prior owner except an Affiliate) would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: (i) one percent of the number of shares of Common Stock then outstanding (which will equal approximately 366,614 shares immediately after this offering); or (ii) the average weekly trading volume of the Common Stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an Affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least three years (including the holding period of any prior owner except an Affiliate), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144; therefore, unless otherwise restricted, "144(k) shares" may therefore be sold immediately upon the completion of this offering. In general, under Rule 701 of the Securities Act as currently in effect, any employee, consultant or advisor of the Company who

purchased shares from the Company in connection with a compensatory stock or option plan or other written agreement is eligible to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

The Company intends to file a registration statement under the Securities Act covering shares of Common Stock reserved for issuance under the Company's 1994 Plan, 1995 Plan, Director Plan and 1995 Purchase Plan. Based on the number of options outstanding and options and shares reserved for issuance at June 30, 1995 under all such plans, such registration statement would cover approximately 6,898,672 shares. See "Management — Stock Plans." Such registration statement is expected to be filed and become effective as soon as practicable after the effective date of this offering. Accordingly, shares registered under such registration statement will, subject to Rule 144 volume limitations applicable to Affiliates, be available for sale in the open market, unless such shares are subject to vesting restrictions with the Company or the lock-up agreements described above. As of June 30, 1995, options to purchase 855,000 shares of Common Stock were issued and outstanding under the 1994 Plan, and no options to purchase shares had been granted under the Company's 1995 Plan, Director Plan, and 1995 Purchase Plan. See "Management — Director Compensation" and "— Stock Plans."

CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS OF COMMON STOCK

The following discussion concerns the material United States federal income and estate tax consequences of the ownership and disposition of shares of Common Stock applicable to Non-U.S. Holders of such shares of Common Stock. In general, a "Non-U.S. Holder" is any holder other than (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organized in the United States or under the laws of the United States or any State or (iii) an estate or trust whose income is includible in gross income for United States federal income tax purposes regardless of its source. The discussion is based on current law, which is subject to change retroactively or prospectively, and is for general information only. The discussion does not address all aspects of federal income and estate taxation and does not address any aspects of state, local or foreign tax laws. The discussion does not consider any specific facts or circumstances that may apply to a particular Non-U.S. Holder (including the fact that in the case of a Non-U.S. Holder that is a partnership, the United States tax consequences of holding and disposing of shares of Common Stock may be affected by certain determinations made at the partner level). Accordingly, prospective investors are urged to consult their tax advisors regarding the United States federal, state, local and non-U.S. income and other tax consequences of holding and disposing of shares of Common Stock.

Dividends. Dividends, if any (see "Dividend Policy"), paid to a Non-U.S. Holder generally will be subject to United States withholding tax at a 30% rate (or a lower rate as may be prescribed by an applicable tax treaty) unless the dividends are effectively connected with a trade or business of the Non-U.S. Holder within the United States. Dividends effectively connected with a trade or business will generally not be subject to withholding (if the Non-U.S. Holder properly files an executed United States Internal Revenue Service ("IRS") Form 4224 with the payor of the dividend) and generally will be subject to United States federal income tax on a net income basis at regular graduated rates. In the case of a Non-U.S. Holder which is a corporation, such effectively connected income also may be subject to the branch profits tax (which is generally imposed on a foreign corporation on the repatriation from the United States of effectively connected earnings and profits). The branch profits tax may not apply if the recipient is a qualified resident of certain countries with which the United States has an income tax treaty. To determine the applicability of a tax treaty providing for a lower rate of withholding, dividends paid to a stockholder's address of record in a foreign country are presumed, under the current IRS position, to be paid to a resident of that country, unless the payor has knowledge that such presumption is not warranted or an applicable tax treaty (or United States Treasury Regulations thereunder) requires some other method for determining a Non-U.S. Holder's residence. However, under proposed U.S. Treasury regulations, which have not yet been put into effect, to claim the benefits of a tax treaty, a Non-U.S. Holder of Common Stock would be required to file certain forms accompanied by a statement from a competent authority of the treaty country.

Sale of Common Stock. Generally, a Non-U.S. Holder will not be subject to United States federal income tax on any gain realized upon the disposition of such holder's shares of Common Stock unless (i) the gain is effectively connected with a trade or business carried on by the Non-U.S. Holder with the United States (in which case the branch profits tax may apply); (ii) the Non-U.S. Holder is an individual who holds the shares of Common Stock as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and to whom such gain is United States source; (iii) the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. tax law applicable to certain former United States citizens or residents; or (iv) the Company is or has been a "U.S. real property holding corporation" for federal income tax purposes (which the Company does not believe that it is or is likely to become) at any time during the five year period ending on the date of disposition (or such shorter period that such shares were held) and, subject to certain exceptions, the Non-U.S. Holder held, directly or indirectly, more than five percent of the Common Stock.

Estate Tax. Shares of Common Stock owned or treated as owned by an individual who is not a citizen or resident (as specifically defined for United States federal estate tax purposes) of the United States at the time of death will be includible in the individual's gross estate for United States federal estate tax purposes, unless an applicable tax treaty provides otherwise, and may be subject to United States federal estate tax.

Backup Withholding and Information Reporting

Dividends. The Company must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to and the tax withheld, if any, with respect to such holder. These information reporting requirements apply regardless of whether withholding was reduced by an applicable tax treaty. Copies of these information returns may also be available under the provisions of a specific treaty or agreement with the tax authorities in the country in which the Non-U.S. Holder resides. Dividends that are subject to United States withholding tax at the 30% statutory rate or at a reduced tax treaty rate and dividends that are effectively connected with the conduct of a trade or business in the Untied States (if certain certification and disclosure requirements are met) are exempt from backup withholding of U.S. federal income tax. In general, backup withholding at a rate of 31% and information reporting will apply to other dividends paid on shares of Common Stock to holders that are not "exempt recipients" and fail to provide in the manner required certain identifying information (such as the holder's name, address and taxpayer identification number). Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Disposition of Common Stock. The payment of the proceeds from the disposition of shares of Common Stock through the United States office of a broker will be subject to information reporting and backup withholding unless the holder, under penalties of perjury, certifies, among other things, its status as a Non-U.S. Holder, or otherwise establishes an exemption. Generally, the payment of the proceeds from the disposition of shares of Common Stock to or through a non-U.S. office of a broker will not be subject to backup withholding and will not be subject to information reporting. In the case of the payment of proceeds from the disposition of shares of Common Stock through a non-U.S. office of a broker that is a U.S. person or a "U.S.-related person," existing regulations require information reporting (but not backup withholding) on the payment unless the broker receives a statement from the owner, signed under penalties of perjury, certifying, among other things, its status as a Non-U.S. Holder, or the broker has documentary evidence in its files that the owner is a Non-U.S. Holder and the broker has no actual knowledge to the contrary. For tax purpose, a "U.S.-related person" is (i) a "controlled foreign corporation" for United States federal income tax purposes of (ii) a foreign person 50% or more of whose gross income from all sources for the three year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived form activities that are effectively connected with the conduct of a United States trade or business.

Any amounts withheld from a payment to a Non-U.S. Holder under the backup withholding rules will be allowed as a credit against such holder's United States federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the IRS. Non-U.S Holders should consult their tax advisors regarding the application of these rules to their particular situations, the availability of an exemption therefrom and the procedures for obtaining such an exemption, if available.

UNDERWRITERS

Under the terms and subject to conditions contained in an Underwriting Agreement dated the date hereof, the U.S. Underwriters named below, for whom Morgan Stanley & Co. Incorporated and Hambrecht & Quist LLC are serving as U.S. Representatives, have severally agreed to purchase, and the Company has agreed to sell 3,000,000 shares of the Company's Common Stock, and the International Underwriters named below, for whom Morgan Stanley & Co. International Limited and Hambrecht & Quist LLC are serving as International Representatives (collectively with the U.S. Representatives, the "Representatives"), have severally agreed to purchase, and the Company has agreed to sell 500,000 shares of the Company's Common Stock, which in the aggregate equals the number of shares set forth opposite the name of such Underwriters below.

Name	Number of Shares
U.S. Underwriters:	
Morgan Stanley & Co. Incorporated	
Hambrecht & Quist LLC	
Subtotal	3,000,000
International Underwriters:	
Morgan Stanley & Co. International Limited	
Hambrecht & Quist LLC	
Subtotal	500,000
Total	3,500,000

The U.S. Underwriters and the International Underwriters are collectively referred to as the "Underwriters." The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock offered hereby are subject to the approval of certain legal matters by counsel and to certain other conditions, including the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Securities and Exchange Commission and that there has been no material adverse change or any development involving a prospective material adverse change in the business, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Registration Statement. The Underwriters are obligated to take and pay for all of the shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any are taken.

Pursuant to the Agreement Between U.S. and International Underwriters, each U.S. Underwriter has represented and agreed that, with certain exceptions set forth below, (a) it is not purchasing any U.S. Shares (as defined below) for the account of anyone other than a United States or Canadian Person (as defined below) and (b) it has not offered or sold, and will not offer or sell, directly or indirectly, any U.S. Shares or distribute this Prospectus outside the United States or Canada or to anyone other than a United States or Canadian Person. Pursuant to the Agreement Between U.S. and International Underwriters, each International Underwriter has represented and agreed that, with certain exceptions set forth below, (a) it is not purchasing any International Shares (as defined below) for the account of any United States or Canadian Person and (b) it has not offered or sold, and will not offer or sell, directly or indirectly, any International Shares or distribute this Prospectus within the United States or Canada or to any United States or Canadian

LEGAL MATTERS

Certain legal matters with respect to the legality of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company by Wilson Sonsini Goodrich & Rosati, Professional Corporation, 650 Page Mill Road, Palo Alto, California 94304. Certain legal matters in connection with this offering will be passed upon for the Underwriters by Morrison & Foerster, 755 Page Mill Road, Palo Alto, California 94304.

EXPERTS

The consolidated financial statements and schedule of the Company at December 31, 1994 and for the period from April 4, 1994 (inception) to December 31, 1994 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein and in the Registration Statement, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission"), Washington, D.C. 20549, a Registration Statement on Form S-1 under the Securities Act with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. Certain items are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed therewith. Statements contained in this Prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement, and the exhibits and schedules thereto, may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048, and copies of all or any part of the Registration Statement may be obtained from such offices upon the payment of the fees prescribed by the Commission.

NETSCAPE COMMUNICATIONS CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Netscape Communications Corporation

We have audited the accompanying consolidated balance sheet of Netscape Communications Corporation as of December 31, 1994 and the related consolidated statements of operations, stockholders' equity and cash flows for the period from inception (April 4, 1994) to December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Netscape Communications Corporation at December 31, 1994, and the consolidated results of its operations and its cash flows for the period from inception (April 4, 1994) to December 31, 1994, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Palo Alto, California
February 22, 1995,
except for Note 10,
as to which the date is
June 19, 1995

The foregoing report is in the form that will be signed upon completion of the two-for-one stock split described in Note 10 to the consolidated financial statements.

Palo Alto, California
July 14, 1995

NETSCAPE COMMUNICATIONS CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1994	June 30, 1995	Pro Forma Stockholders' Equity June 30, 1995
		(Unaudited)	(Unaudited)
Current assets:			
Cash and cash equivalents	$ 3,243,510	$ 8,868,436	
Short-term investments	—	16,567,300	
Accounts receivable, net of allowance for doubtful accounts of $131,153 in 1995	701,649	8,277,869	
Other current assets	67,284	804,971	
Total current assets	4,012,443	34,518,576	
Property and equipment, net	2,447,098	6,761,045	
Deposits and other assets	699,100	1,251,582	
	$ 7,158,641	$ 42,531,203	

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1994	June 30, 1995	Pro Forma Stockholders' Equity June 30, 1995
Current liabilities:			
Accounts payable	$ 855,068	$ 4,607,174	
Accrued compensation and related liabilities	527,340	1,075,066	
Other accrued liabilities	667,503	1,897,819	
Deferred revenues	2,575,145	14,963,843	
Current portion of long-term obligations	725,000	725,000	
Installment notes payable	—	551,449	
Total current liabilities	5,350,056	23,820,351	
Long-term obligations	725,000	725,000	
Installment notes payable	—	1,511,331	
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, $0.0001 par value; issuable in series; 7,608,222 shares in 1994 and 11,286,222 shares in 1995 authorized, 7,008,222 shares in 1994 and 9,008,222 shares in 1995 issued and outstanding; aggregate liquidation preference of $27,541,999 (5,000,000 shares authorized, none issued and outstanding, pro forma)	701	901	—
Common stock, $0.0001 par value; 30,000,000 shares authorized; 4,511,000 shares in 1994 and 15,145,000 shares in 1995 issued and outstanding (100,000,000 shares authorized, 33,161,444 shares issued and outstanding, pro forma)	451	1,514	3,316
Additional paid-in capital	9,552,278	39,683,666	39,682,765
Notes receivable from stockholders	—	(638,065)	(638,065)
Deferred compensation	—	(9,812,151)	(9,812,151)
Accumulated deficit	(8,469,845)	(12,777,561)	(12,777,561)
Accumulated translation adjustment	—	16,217	16,217
Total stockholders' equity	1,083,585	16,474,521	$ 16,474,521
	$ 7,158,641	$ 42,531,203	

See accompanying notes.

NETSCAPE COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Inception (April 4, 1994) to December 31, 1994	Inception (April 4, 1994) to June 30, 1994	Six Months Ended June 30, 1995
		(Unaudited)	(Unaudited)
Revenues:			
Product revenues	$ 378,490	$ —	$15,580,258
Service revenues	317,381	—	1,045,133
Total revenues	695,871	—	16,625,391
Cost of revenues:			
Cost of product revenues	114,777	—	1,222,045
Cost of service revenues	104,313	—	513,767
Total cost of revenues	219,090	—	1,735,812
Gross profit	476,781	—	14,889,579
Operating expenses:			
Research and development	2,031,986	172,065	6,115,152
Sales and marketing	2,813,689	48,369	9,256,066
General and administrative	1,669,193	232,519	3,693,005
Property rights agreement and related charges	2,486,688	—	500,000
Total operating expenses	9,001,556	452,953	19,564,223
Operating loss	(8,524,775)	(452,953)	(4,674,644)
Interest income	55,238	—	495,583
Interest expense	(308)	—	(128,655)
Net loss	$ (8,469,845)	$ (452,953)	$(4,307,716)
Net loss per share	$ (0.25)	$ (0.01)	$ (0.13)
Shares used in computing net loss per share	33,484,462	31,995,573	34,228,906

See accompanying notes.

NETSCAPE COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-in Capital	Notes Receivable from Stockholders	Deferred Compensation	Accumulated Deficit	Accumulated Translation Adjustment	Total Stockholders' Equity
Issuance of 3,750,000 shares of common stock to founders and employees for cash	$ —	$ 375	$ 16,300	$ —	$ —	$ —	$ —	$ 16,675
Issuance of 4,151,000 shares of Series A convertible preferred stock at $0.75 per share for cash and technology	415	—	3,112,835	—	—	—	—	3,113,250
Issuance of 2,857,222 shares of Series B convertible preferred stock at $2.25 per share for cash, net of issuance costs of $33,933	286	—	6,394,531	—	—	—	—	6,394,817
Exercise of 761,000 shares of common stock options	—	76	28,612	—	—	—	—	28,688
Net loss	—	—	—	—	—	(8,469,845)	—	(8,469,845)
Balance at December 31, 1994	701	451	9,552,278	—	—	(8,469,845)	—	1,083,585
Issuance of 10,634,000 shares of common stock upon exercise of stock options, net of repurchases for cash and notes (unaudited)	—	1,063	1,744,535	(638,065)	—	—	—	1,107,533
Issuance of 2,000,000 shares of Series C convertible preferred stock at $9.00 per share for cash, net of issuance costs of $700,000 (unaudited)	200	—	17,299,800	—	—	—	—	17,300,000
Deferred compensation related to grant of stock options (unaudited)	—	—	11,087,053	—	(11,087,053)	—	—	—
Amortization of deferred compensation (unaudited)	—	—	—	—	1,274,902	—	—	1,274,902
Net loss (unaudited)	—	—	—	—	—	(4,307,716)	—	(4,307,716)
Accumulated translation adjustment (unaudited)	—	—	—	—	—	—	16,217	16,217
Balance at June 30, 1995 (unaudited)	$901	$1,514	$39,683,666	$(638,065)	$ (9,812,151)	$(12,777,561)	$16,217	$16,474,521

See accompanying notes.

Depreciation and Amortization

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the asset.

Concentration of Credit Risk

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains reserves for credit losses, and such losses have been within management's expectations.

Research and Development

Research and development expenditures are charged to operations as incurred. Statement of Financial Accounting Standard No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant. All research and development costs have been expensed.

Per Share Amounts

Net loss per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletins and Staff Policy, such computations include all common and common equivalent shares issued within 12 months of the filing date as if they were outstanding for all periods presented using the treasury stock method. Common equivalent shares consist of the incremental common shares issuable upon conversion of the convertible preferred stock (using the if-converted method) and shares issuable upon the exercise of stock options (using the treasury stock method).

Reclassification

Certain prior period balances have been reclassified to conform with current period presentation.

2. Property and Equipment

Property and equipment, at cost, consists of the following:

	December 31, 1994	June 30, 1995
		(Unaudited)
Computers and equipment	$2,169,537	$6,192,974
Furniture and fixtures	486,439	1,133,314
Leasehold improvements	6,990	291,598
	2,662,966	7,617,886
Less accumulated depreciation	215,868	856,841
	$2,447,098	$6,761,045

3. Leases

The Company leases its facilities and certain other equipment under operating lease agreements expiring through December 31, 2001. Future minimum payments as of December 31, 1994 under these leases, net of sublease payments, are as follows:

1995	$ 815,750
1996	1,480,860
1997	1,480,860
1998	1,588,720
1999 and thereafter	4,864,227
	$10,230,417

Rent expense for the period from inception (April 4, 1994) to December 31, 1994 was $59,287, net of sublease payments.

4. Installment Notes Payable

On March 3, 1995, the Company entered into a senior loan agreement for total borrowings not to exceed $2,200,000. Borrowings made under the agreement are secured by certain assets of the Company. The notes are payable in 36 monthly installments. Maturities subsequent to June 30, 1995 are as follows: $262,116 in 1995; $600,716 in 1996; $713,150 in 1997 and $486,798 in 1998.

5. Property Rights Agreement

On December 20, 1994, the Company entered into an agreement with the University of Illinois (the "University") and Spyglass, Inc. ("Spyglass"). Under the terms of the agreement, the University and Spyglass agreed not to assert any claim of trademark infringement arising out of the Company's prior use of the word "Mosaic" or other symbols or words used by the Company to market itself or its products. The University and Spyglass further agreed not to assert against the Company any claim of copyright infringement, trade secret misappropriation or related claims based on the Company's use of former University employees in the development of the Company's present and future products. As consideration for these covenants not to assert, the Company agreed to make certain payments to the University over a two year period. The amount of this agreement and associated costs, including fees for experts and professional services, as well as trademark search and other costs, was expensed in 1994 and was included as "Property rights agreement and related charges" on the consolidated statements of operations. Certain amounts become payable to the University in 1995 and 1996, and have been recorded as long-term obligations.

If over the term of the agreement (two years from December 21, 1994) the Company enters into a license, distribution, remarketing or sublicensing agreement with certain specific companies, the Company may pay up to $1.3 million to the University. During the six months ended June 30, 1995, the Company made two such additional payments totaling $500,000. In addition, if over the term of the agreement any of these companies acquires a controlling interest in the Company, there is a per unit royalty paid to the University over the remaining term.

6. Stockholders' Equity

Preferred Stock

Preferred stock as of December 31, 1994 consists of the following convertible preferred stock, par value $0.0001 per share:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference
Series A	4,151,000	4,151,000	$3,113,250
Series B	3,457,222	2,857,222	6,428,749
	7,608,222	7,008,222	$9,541,999

Each share of Series A and B preferred stock is convertible into common stock at the option of the holder on a two-for-one basis, subject to certain adjustments. Each series of preferred stock will automatically convert upon the earliest of the closing date of an underwritten public offering of the Company's common stock with aggregate proceeds of more than $10,000,000 or the date of written consent of the holders of a majority of the outstanding shares of the preferred stock. The Company has reserved a sufficient number of shares of common stock to permit conversion of the preferred stock in accordance with its terms.

Holders of the preferred stock are entitled to one vote for each share of common stock into which such shares may be converted. Each share of Series A and B preferred stock entitles the holder to receive noncumulative dividends, if and when declared by the board of directors, prior to any dividend paid on the common stock. Dividends, if any, on preferred stock shall be declared at an annual rate of $0.0675 per share for Series A preferred stock and $0.20 per share for Series B preferred stock. As of December 31, 1994, no dividends have been declared.

In the event of liquidation, the preferred stock has preference over the common stock in the amounts of $0.75 and $2.25 per share for the Series A and B preferred stock, respectively, plus declared but unpaid dividends.

Common Stock

All shares of common stock issued by the Company at December 31, 1994 were subject to stock repurchase agreements whereby the Company has the option to repurchase the unvested shares upon termination of employment for any reason, with or without cause, at the original price paid for the shares. Generally, the stock vests over 50 months from the date of issuance.

In addition, the Company has the right of first refusal upon sale or transfer of shares of common stock. This right will expire upon the Company's initial public offering.

1994 Stock Option Plan

During 1994, the Company adopted the 1994 Stock Option Plan under which incentive stock options or nonqualified stock options to purchase common stock may be granted to employees and certain consultants or independent contractors. Under the Plan, options to purchase common stock may be granted at prices not less than 85% of the fair value on the date of grant (110% of fair value in certain instances), as determined by the board of directors. Options granted are immediately exercisable and the resulting shares issued to employees under the Plan are subject to repurchase by the Company, at the discretion of the Company, upon the individual's cessation of service prior to vesting in the shares at the original purchase price. The right expires as determined by the board of directors, generally over a 50-month period.

A summary of activity under the option portion of the Plan is as follows:

	Shares Available for Grant	Options Outstanding	
		Number of Shares	Price Per Share
Shares reserved	5,729,232	—	—
Options granted	(2,921,200)	2,921,200	$0.038-$0.1125
Options cancelled	300,000	(300,000)	$0.038
Options exercised	—	(761,000)	$0.038-$0.1125
Balance at December 31, 1994	3,108,032	1,860,200	$0.038-$0.1125
Shares reserved (unaudited)	3,307,440	—	—
Options granted (unaudited)	(6,199,000)	6,199,000	$0.1125-$9.60
Options cancelled (unaudited)	227,200	(227,200)	$0.038-$0.1125
Options exercised (unaudited)	—	(6,977,000)	$0.038-$0.45
Balance at June 30, 1995 (unaudited)	443,672	855,000	$0.038-$9.60

In the six months ended June 30, 1995, the Company granted an option to purchase 4,000,000 shares of common stock outside of the Plan. The exercise price was $0.1125 per share. This option was immediately exercisable in its entirety with 2,000,000 shares subject to repurchase at the option of the Company upon the individual's cessation of service prior to vesting in the shares at the original purchase price. The remaining stock vests over a 50-month period. In the six months ended June 30, 1995, the option was exercised.

At December 31, 1994, no options were vested and 3,947,000 shares of common stock were subject to repurchase at the option of the Company at the original purchase price. In the six months ended June 30, 1995, the Company repurchased 343,000 shares of common stock at the original exercise price. At June 30, 1995, no options for shares were vested and 12,429,460 shares were subject to repurchase.

The Company has recorded deferred compensation expense of $11,087,053 for the difference between the grant price and the deemed fair value of certain of the Company's common stock options granted in 1995. This amount is being amortized over the vesting period of the individual options, generally a 50-month period. Deferred compensation expense attributed to 2,000,000 shares of common stock was fully amortized at June 30, 1995, as such shares were fully vested upon grant. Deferred compensation expense recognized in the six months ended June 30, 1995 totaled $1,274,902.

Unaudited Pro Forma Stockholders' Equity

Unaudited pro forma stockholders' equity at June 30, 1995 gives effect to a two-for-one conversion of 9,008,222 shares of preferred stock into common stock upon the close of the Company's initial public offering of shares of its common stock.

7. Income Taxes

As of December 31, 1994, the Company had federal net operating loss carryforwards of approximately $7,000,000. The Company also had federal research and development tax credit carryforwards of approximately $90,000. The net operating loss and credit carryforwards will expire in 2009 if not utilized. The Company also has state net operating loss carryforwards of approximately $5,000,000 which will expire in 2002 if not utilized.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes. As of December 31, 1994, the Company had deferred tax assets of approximately $3,500,000 relating primarily to net operating loss carryforwards. The net deferred tax asset has been fully offset by a valuation allowance.

Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions.

8. Benefit Plan

The Company maintains a 401(k) retirement savings plan for its full time employees. Each participant in the Plan may elect to contribute from 1% to 15% of his or her annual compensation to the Plan. The Company, at its discretion, may make contributions to the Plan, however has made none through June 30, 1995.

9. Segment Information

The Company conducts its business within one industry segment. Two customers accounted for 45% and 36% of total revenues in the period from inception (April 4, 1994) through December 31, 1994. No customer accounted for more than 10% of total revenues in the six months ended June 30, 1995.

Revenues to customers outside North America were less than 10% of total revenues in the period from inception (April 4, 1994) through December 31, 1994 and were approximately 13% of total revenues in the six months ended June 30, 1995.

10. Subsequent Events

In April 1995, the Company issued 2,000,000 shares of Series C convertible preferred stock to investors at $9.00 per share, resulting in net cash proceeds of approximately $17,300,000 to the Company. In conjunction with the issuance, the Company increased the number of authorized preferred shares to 11,286,222 of which 2,278,000 have been designated Series C and 2,000,000 have been undesignated, and increased the number of authorized common shares to 30,000,000. Holders of Series C preferred stock are entitled to noncumulative dividends of $0.81 per share if and when declared by the board of directors and in advance of any distribution to Series A or B preferred stock or common stock. Each share of Series C preferred stock is convertible into common stock at the option of the holder on a two-for-one basis, subject to certain adjustments. Each series of preferred stock will automatically convert upon the earliest of the closing date of an underwritten public offering of the Company's common stock with aggregate proceeds of more than $15,000,000 at a public offering price of not less than $6.00 per share until April 5, 1996 or $7.50 after April 5, 1996 or the date of written consent of the holders of a majority of the outstanding shares of the preferred stock and of the Series C preferred stock.

On June 19, 1995, the board of directors authorized management of the Company to file a Registration Statement with the Securities and Exchange Commission permitting the Company to sell shares of its common stock to the public. In addition, the Company's board of directors authorized an increase in the number of authorized common and preferred shares to 100,000,000 and 5,000,000 shares, respectively. In addition, the Company's board of directors, subject to stockholders' approval, initiated a two-for-one stock split. Accordingly, all the common share and per share data has been adjusted to reflect this change. At the same meeting, the Company's board of directors, subject to stockholders' approval, adopted the 1995 Employee Stock Purchase Plan (the "Purchase Plan") which authorizes the issuance of 1,000,000 shares of common stock. Shares may be purchased under the Purchase Plan at 85% of the lesser of the fair market value of the common stock on the grant or purchase date. In addition, the Company's board of directors, subject to stockholders' approval, adopted the 1995 Stock Plan and 1995 Director Stock Option Plan which authorized the issuance of 4,500,000 shares and 100,000 shares of common stock, respectively.

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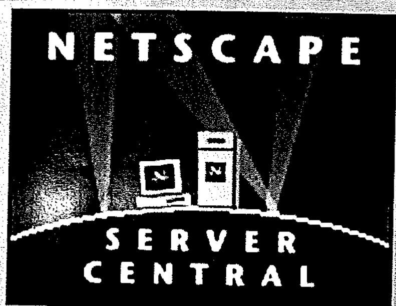

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